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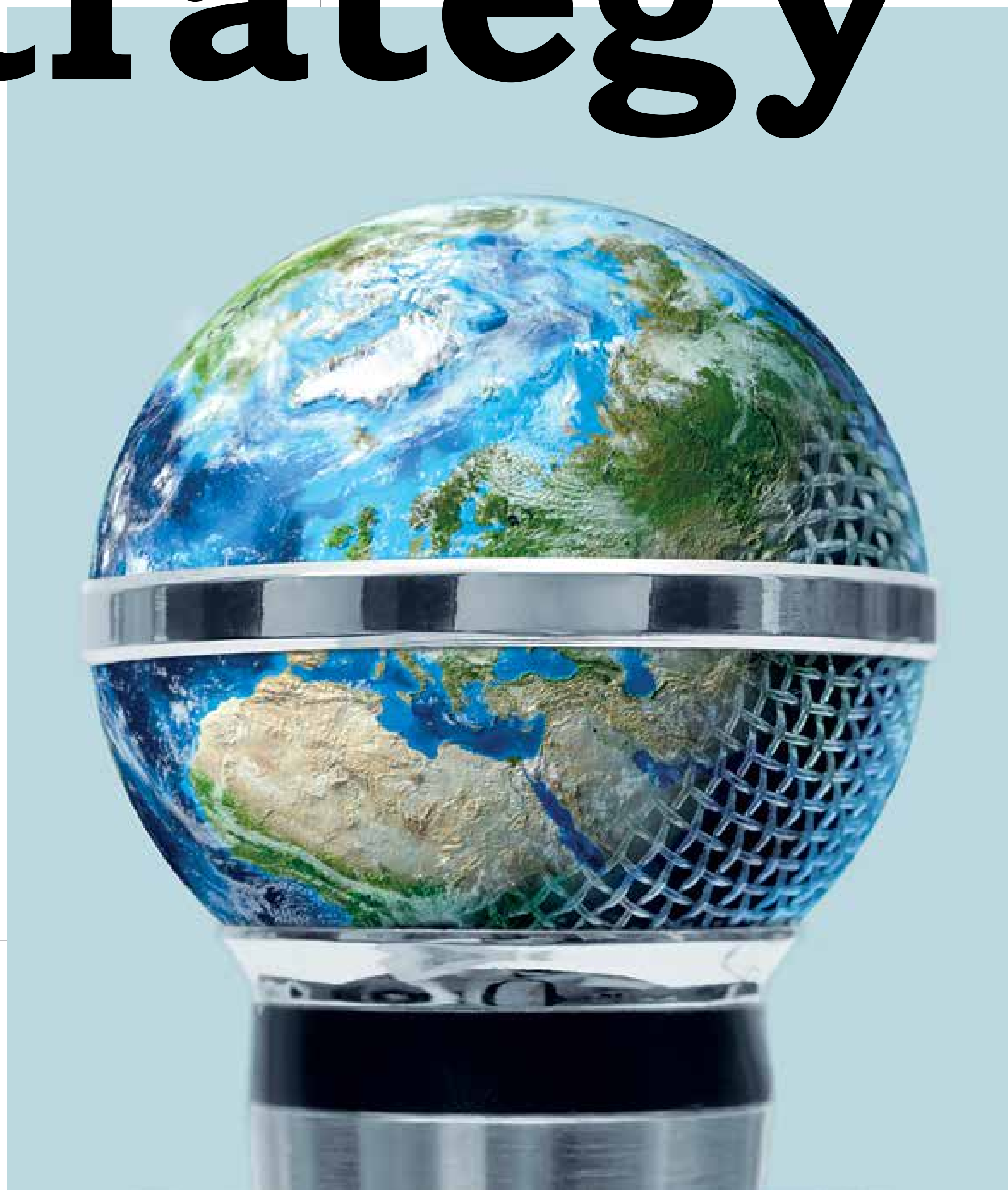

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Forum without Borders

Past and Future

Real Sector

Expert Cases

Spaces of Opportunities

"Forum Without Borders" is the theme of the new issue of our journal. Overcoming borders in business and partner communication is the mission of absolutely all forums. It would seem that spending resources on private meetings in the age of technology is irrational, but live communication cannot not be replaced by any gadget. It is still usual to solve the most important issues during personal meetings, and neither time, nor distance can hinder this.

As long as business agreements are sealed with a handshake, we will meet and talk to each other ignoring borders. Forums will help us in this often serving as a platform not only for making new contacts, but also for addressing the most sophisticated issues, holding heated discussions and elaborating development strategies for entire states.

This issue is aimed to give readers including participants of the Gaidar Forum 2016 and all those who follow its discussions material for thought ahead of the event.

We have selected the most relevant information and most acute issues supplementing the agenda with opinion and forecasts of experts, many of whom will take part in the Forum as speakers or moderators.

What is going on in the Russian economy today? What should we do to make it strong, sustainable, competitive, efficient and working for the benefit of people? How can we build mutually beneficial relationships with our neighbors in volatile economic conditions?

Coverage of the Gaidar Forum will not end with this publication. During the event, we will report on the most interesting discussions and invite our readers to follow the news from the sidelines of the Forum on our website at www.strategyjournal.ru. After the Gaidar Forum we will publish an issue covering its results and the most interesting moments of discussions.

We wish the participants of the Gaidar Forum 2016 successful work and invite speakers interested in sharing their views on the website or in our next issue for further cooperation.

Dmitry Mikhailov,
Editor-in-Chief

New Mainstream

Rector of the Russian Presidential Academy of National Economy and Public Administration Vladimir Mau told the Strategy Journal about the key issues to be highlighted at the Gaidar Forum 2016, concerns associated with Russia's relations with partner states and its east-bound development vector.

The forthcoming Gaidar Forum will be themed "Russia and the World: Looking to the Future". Which of Russia's partner-states are now coming to the fore? And on the contrary, who can we no longer cooperate with as before? How does it affect our economy?

Recent developments in the global economy have vividly demonstrated that the world is actually becoming multipolar and more complex than in the past years. At the same time, the term "partner state" is gaining a different meaning, since even countries that traditionally maintain friendly relations often have distinct interests, while each particular issue creates new unusual combinations of partner states. At the same time, I believe that designating "select" partners is fraught with greater risk in terms of building a long-term strategy.

China can serve as a good example in this context. On the one hand, today, when Russia and the West are in confrontation our economic relations with China and the overall east-bound economic policy are an absolute top priority, as announced by the government. The scope of economic ties and trade (adjusted to Russia's economic performance) is growing.

On the other hand, China is on the verge of a possible serious economic turmoil and the period of sustainable high growth rates is receding into the past. This can also cause political distress should living standards start falling.

In this situation Russia's focus on China as the key economic partner and predicted growth of export of commodities and other goods can turn out to be wrong and entail a new externally induced recession in our economy.

The east-bound vector of Russia's foreign economic policy was much discussed at the last Gaidar Forum. Can you identify economies that are most likely to feel the impact of this vector? What kind of impact will it be?

Although I have partially answered this question earlier I can add that the eastern vector of the foreign economic policy implies the development of both external commercial relations with China and other Asia Pacific countries and development of Russia's eastern regions. At the same time, there should not be a goal to turn the Far East into a source of commodities for export.

First of all, as I have already mentioned, exports to certain regions can become unstable. Second, geographic dependence of the set-up production operations deprives Russia of a chance to maneuver should the situation in particular commodity markets in certain regions change due to economic or political reasons. Third, this approach fails to improve the appeal of the Far East as a place for permanent residence and territory development.

That is why I believe that along with the development of natural resources of the Far East one should create incentives for companies willing to set up processing plants and value chains involving companies based in the Far East.

Special focus should be made on the development of the infrastructure both facilitating export supplies from the Far East to any region of the world and reducing the cost of goods and cargo transportation to European Russia.

The present economic situation in Russia is far from being perfect, the country leaders face numerous challenges with one of them being a slowdown in investment activities. What can be done today to win back the attention of foreign investors?

I would not associate a slowdown in investment activities solely with the imposed sanctions and withdrawal of foreign investors. An investment decline in the Russian economy began in 2013 before the recent events in Ukraine and the following confrontation between Russia and the West.

The key reasons for this recession were failure of the business to understand the prospects of the internal market development and demand for products in Russia, uncertain domestic economic policy and structural inconsistencies in economics.

Preparation for the Gaidar Forum 2016 is in full swing. What are the main questions to be addressed to experts, including foreign ones, regarding Russia's relations with the rest of the world? What opinion will be considered to be the most competent?

The key issues to be highlighted at the Forum this year will be problems associated with long-term socioeconomic development of Russia and its regions, social policy in crisis, raising the efficiency of budgetary funds spending and work of state financed institutions operating in the social sphere, inequality and economic growth, the role of parliamentarism in economics.

> "Along with the development of natural resources in the Far East there should be incentives for companies willing to set up processing plants and value chains involving entities based in the Far East"

Panel discussions will be attended by such internationally acclaimed specialists as professor of economics and political studies of the University of California, Berkeley, Barry Eichengreen, former lead economist at the World Bank Branko Milanovic, professor of Harvard, Oxford and Stanford universities Niall Ferguson, former head of the Bank of Israel Jacob A. Frenkel, former president of the Czech Republic Vaclav Klaus, former Prime Minister of Finland Esco Aho and others along with heads of ministries and administrative departments of the Russian Federation and leading Russian experts.

Do experts feel any anxiety or confidence looking to the future? In your opinion, what economic issues call for immediate discussion?

From the viewpoint of an academic economist, we see rather an interesting period when the mainstream trend in economics is reconsidered and a new economic policy model is being formed. The global economic crisis of 2008–2009 was systemic and resembled the Great Depression of the 1930s or the crisis faced by developed economies in the 1970s. Such episodes always result in new approaches to the understanding of economic processes being formed.

The global crisis is still not over, the global economy has not reached a new path towards sustainable growth and so far we do not fully understand what the new dominating economic model will be like and what economic policy there should be to meet the existing challenges.

In this respect the relevant agenda and the combination of challenges faced by the economic policy in Russia and at the international level are rather far apart. If we look at the issues raised at the leading international economic conferences and the most cited articles today, we will see that these are problems associated with long-term stagnation, inequality (both within and among the countries), regulation of the global financial sector, choice of appropriate monetary and budgetary policies, understanding of the international trade as a system aimed to build global value chains.

Economic restructuring, inflation targeting, the budgetary rule, incentives for technological development and launch of market mechanisms in the labor market still remain relevant on the Russian agenda.

Identity and Progress

Natalya Isaeva, Director General of Authentic Investments consulting company that organized a panel discussion dubbed "Culture for Education or Education for Culture" at the Gaidar Forum 2015 tells why national identity is so important in the age of progress and globalization.

Experts discuss interrelation of culture and economy at the Gaidar Forum every year. Preparing for the Forum this year, we decided to talk about the crisis and opportunities of national identity in the era of progress and globalization.

Such issues as unwavering principles of the so-called Russian world and the Russian course as well as innovations, development, desire to "catch up and outdo" the developed countries are discussed all the time. Which of them is prevailing and aren't they contradicting one another?

According to our President, one cannot exist without the other. "It is impossible to move forward without spiritual, cultural and national self-determination. Without this we will not be able to withstand internal and external challenges, nor we will succeed in global competitions. After all, in the end economic growth, prosperity and geopolitical influence are all derived from societal conditions," said Vladimir Putin in 2013. The issue of cultural trends' impact on the state's success is not of pure interest: world's leading universities study that dependence.

Thus, Guido Tabellini, professor of economics at Bocconi University, recently released his analytics on the matter. The scientist undertook a study in 69 regions of 8 European countries. Indicators of output per capita were compared with the data received within the World Values Survey. The survey assessed the respondents' level of trust in people around them; their confidence in people' ability to determine their own destiny, level of respect to others (all the named factors encourage economic development) as well as respondents' readiness to obey and accept the existing realities (which hinders economic development).

Tabellini found out that the highest level of per capita productivity was registered in densely populated urbanized centers (districts around Paris and Brussels, city regions in Northern Germany and Northern Italy), while the lowest level was in Southern Spain, Portugal and Southern Italy. Having compared these indicators with the survey results, professor Tabellini concluded that "the GDP and economic growth rates are higher in the regions where people trust each other, believe in solo effort and respect the law". "It could be equitably assumed that cultural differences are essential because they constitute a reason why the same official institutions in one area are more efficient than in another. Culture lies in the center of a mechanism through which institutions of the past affect contemporary institutions.

Informal institutions play a huge but not fully perceived role", – the professor said. National identity forms culture and relations between people during the production process. How do the countries that have chosen different ways of preserving national identity develop? In this context Kanybek Imanaliev's paper offering three models of identity is very interesting.

Westernizational model implies a comprehensive study of the Western experience of building a civil society and its widespread implementation when forming the country's own civil and governmental culture. Countries which accepted globalization include Vietnam, Sri Lanka, Bermudas and Ireland Modernizational model aims to preserve centuries-old traditional relations supported by the new technological base and innovations (e.g. Japan, Malaysia, South Korea, India).

Fundamentalistic model denies the Western development experience and aims to defend countries from external influence, preserve the permanent right of intellectual, political and religious leaders to rule their people. Countries which denied globalization include Pakistan, Iran, Saudi Arabia, Turkmenistan, and Belarus.

Russia's development path will become the subject of a plenary session dedicated to culture at the Gaidar Forum 2016. Participants will discuss why progress and globalization are considered as the main enemies of national identity and find out how these processes affect cultural development; experts will also analyze experience of different countries which denied globalization aiming to preserve identity.

Monetary Diet

Ksenia Yudaeva, First Deputy Governor of the Bank of Russia, told the Strategy Journal what to expect from inflation, whether economic growth stops and how tight the monetary and credit policy should be.

Recently, the State Duma passed in its first reading a draft budget for 2016. A number of experts believe that this budget is antisocial and recommend to increase the budget deficit in order to preserve social obligations at most. Why is it impossible?

Frankly speaking, you should ask the Ministry of Finance about that. I can only guess why it did not work out. When estimating a budget even just for a year, you should always consider a few years' prospects. Russia had surplus budget for several years, and now we returned to deficit. In this context, the budget policy is counter-cyclical, regardless of budget reductions. Today, the national debt, minus the Reserve Fund and the National Wealth Fund, is relatively low, and its increase does not affect the market situation. But we should realize that the situation can change as long as the debt is rising. That is why the national debt could be increased to a limited extent. During the next several years we need to balance the budget so that the relation of the debt to GDP is stable or starts to decrease. As regards social expenditures, the resource of budget optimization should be used. We should start to work hard to identify inefficient expenditures. The results of such work could be considered next year during budget preparation.

According to the Ministry of Finance, inflation in Russia will decline if there is no turmoil at the petroleum market. What will cause a decline in inflation and what is meant by turmoil?

Inflation will decline driven by two factors. First, the one-time effect of the sharp rise in prices that occurred in late 2014 and early 2015 influenced by a significant exchange rate adjustment has almost disappeared. Second, moderately tight monetary and credit policy and, at present, budgetary policy also smooth the way for a decline in inflation. Moderately tight monetary and credit policy stimulates savings and, consequently, restrains the demand growth a little and releases funds for investments. The 2016 budget for will have the same effect. Inflation will be gradually slowing down as a result.

Do you share the view that the supercycle of oil industry is over, and oil prices will never be higher than nowadays? What influence did this view have on the planning of the Central Bank's policy for the upcoming year?

Yes, I share the opinion that the global economy entered the long-lasting period of low oil prices. People faced such periods several times during the last fifty years. The prices were low till 1973, then they grew and came down in 1986 and rose again only in 2000.

Nowadays, it's another period of falling prices. The prices could grow a little, but in the mid-term it should be taken into account that the oil market has shifted to a new balance with lower prices. There are two reasons for that both from the supply point of view (the appearance of a wide range of alternative producers, and first of all, the USA) and the demand point of view (a slowdown of the economic growth in China and its economy reorientation to growth based on consumption instead of investments into infrastructure and construction). The Bank of Russia's baseline scenario stipulates the annual average oil price at 50 US dollars per barrel for the next three years. The hard period for the Central Bank was the second half of 2014 and the beginning of 2015 when the main shift of oil market to the new long-term balance took place. Nowadays, the high level of volatility is preserved at the oil market which should be considered when analyzing the economic situation and policy implementation. In particular, financial stability risk should be monitored on a permanent basis. On the other hand, the Russian economy has already passed the first stage of adaptation to the new balance. This refers to the balance of payments adjustment and change in relative prices for imported and other goods. The initial economic slowdown caused by changes in the pattern of demand comes to the end. Therefore, today the task of the Central Bank's policy is to stabilize the economic and financial situations and create a macroeconomic environment encouraging the return to stable economic growth under the contemporary conditions. An important condition for addressing these tasks is a balanced mid-term budget, which corresponds to the vision of the Ministry of Finance. The Bank of Russia has a strategic task to decrease the level of inflation and inflation expectations down to the target level of 4 per cent which will create unexpected conditions for savings and investments. The low level of inflation is an indispensable condition of stable economic growth, investments and financial system development. Moreover, it is crucial to pursue the coherent policy of strengthening banking and financial systems and developing financial tools and infrastructure because due to the currently limited access to external capital markets the key source of investments should become internal savings.

"Monetary factors should be neither too soft, nor too tough", your colleague Dmitry Tulin said recently. What does this thesis mean in practice and how will it affect the key indicators of monetary policy?

The too soft policy leads to preserving the high level of inflation and even its further acceleration. In the end, this creates a threat to economic growth stability in the mid- and long-term

"Moderately tight monetary and credit policy stimulates savings and, consequently, restrains the demand growth a little and releases funds for investments" perspective. The too tough policy could have a short-term but materially negative effect on economic activity. That is why it is necessary to balance risks to inflation and economy. Actually, we are talking about choosing the optimal speed of transferring to a new and healthier economy. It is like a diet: having lost excess weight a person feels better, and the threat of diseases caused by excess weight declines. But losing weight very fast is bad for health. That is why there need to be a weight-losing strategy based on healthy balanced nutrition. It is also important to accomplish the process and then maintain the weight.

To what extent do the inflation expectations for 2015 correspond with the actual inflation?

If talking about absolute numbers, the expectations are overestimated. Taking into account our recent complicated historical experience, it is clear why it happened. Our country passed through the hyperinflation period in early 1990s, when all savings went down in value; the crises of 1998 and 2008-2009 also offered little room for belief in the stability of our economy. People and entities always worry about a new inflation wave. That is why the population's estimations of the current inflation level and future expectations are higher than the actual level. However, analyzing changes rather than absolute numbers, the population usually adjusts its expectations based on the inflation rate. This was the case in 2000-2013 when estimates of inflation expectations dropped. Therefore, next year, inflation expectations will start to decline along with the inflation rate going down. It should be mentioned that professional analytics and forecasters also have high inflation expectations. The majority of them agree with the assessment of mid-term inflation trends. By the way, there are experts who believe that the current estimates of the Federal State Statistics Service are set too high because they ignore changes in consumer goods basket. Anyhow, the vast majority of professionals stand assured that in the coming months we will see the one-figure inflation as it was roughly predicted by the Central Bank of Russia early in 2015. Nevertheless, there is strong disagreement over the mid-term inflation trends. The fact that the Central Bank of Russia is able to slow down the inflation to 4% by 2017 is often brought into question. It means that inflation expectations of the professional community are also high, and it is the Central Bank's task to prove that our forecasts are realistic and we can manage the inflation. Bearing in mind the market situation, we realize that today the level of belief in the Central Bank's capability to curb the inflation is significantly higher than half a year or a year ago. We can see it from the federal loan bond curve which became inversive. The market believes that the rates of interest will be lower in the mid- and long-term perspectives, which is impossible without a decline in inflation. Today, the main task is to show that the inflation could go down not only to the level of 2012-2014 but to the target level of 4%.

In your opinion, what can stimulate the economic growth in the next three years given that no structural reforms focused on diversification of economy and increase in labor productivity are implemented?

We need to understand that without structural reforms the growth rate will be very low. The situation itself pushes us to carry out structural reforms. There are sectors which lost a lot under the current conditions, but there are sectors which won. These are exporting sectors, especially non-energy ones, and a range of sectors which were pushed to imports phase-out by the ruble devaluation. The profit performance which has grown this year demonstrates well the balance of gains and losses. Another positive factor is a decline in leverage on the Russian corporate sector which took place last year. Meanwhile, a complicated economic situation forces to reduce costs. It is important to start this process both in state and corporate sectors. Along with the reduced debt burden this will release resources for investment. But the business' desire to invest depends not only on financial resources availability. Flexible labor market, effective ownership structure and many other factors are required, which in its turn calls for structural reforms.

Experts from the Gaidar Institute believe that increase in international reserves could destabilize the exchange situation which could lead to another inflation outburst. Do you agree with them? Why?

The Central Bank replenishes reserves on the exchange market only in a manner which does not put the exchange rate under pressure. We operate and will operate very carefully trying to exclude risks of destabilization on the exchange market. When it is resumed, accumulation of reserves will be carried out in small volumes determined specially to have a minimal impact on the market and not to prevent achieving the target inflation as it was done this summer. The Central Bank does not have a goal in itself to accumulate reserves by the particular moment and carefully observe the economic situation, balance of payments and markets. The reserves are accumulated only when the market situation is calm.

"The Central Bank of Russia replenishes reserves on the exchange market in such a way that does not put the exchange rate under pressure"

The term 'new normal' to which the Russian economy is being adapted was suggested by Bill Gross back in 2009. This term includes the floating exchange rate mode implemented by the Central Bank. When will the adaptation be concluded? What will be the Russian economy losses in the aftermath of this mode?

Strictly speaking, Bill Gross told nothing about the floating exchange rate in Russia. There are several Russian attempts to analyze the situation; the floating rate is mentioned among other things. The question is when the adaptation will be concluded. In my opinion, it is almost completed. There are several trends which prove that. First, the volatility of ruble is again lower than the volatility of oil, just as before the events of autumn 2014. Second, dollarization of people and company's deposits remains the same, as adjusted for the effect of reappraisal based on exchange rate. It means that the process of mass conversion of rubles into foreign currency associated among other things with a feared shift to a floating rate is over.

Furthermore, when the ruble is extremely low, we from time to time notice growth in demand for rubles from retail customers expecting reverse tendencies. Third, risk premiums for investments into Russian financial instruments went down. As for losses, most of them are associated with the fall in oil prices and not with the floating rate. In this regard this was unavoidable. Moreover, keeping in mind examples of the countries which decided not to transfer to the floating rate or did that too late, we can imagine what additional losses for economy and budget this policy could entail

Entrepreneurs demand from the Central Bank to lower the rate of long-term loans for investment development as well as to stimulate commercial banks to use this instrument more actively. Are there any plans to implement such measures?

If you are talking about the rates for the Central Bank specialized instruments, they will decline as the inflation and the key rate go down. And regarding the rates for long-term loans for commercial banks, they will be reduced as the inflation rate and expectations drop. By the way, as for the long-term loan dynamics the inflation expectations are even more important than the Central Bank's key rate which is a short-term loan rate. If the inflation expectations are high, the long-term percentage rate will also be high, because they cover compensation for depositors for keeping their money on deposits despite inflation risks.

Text: Darya Kichigina,
Ekaterina Pronina

A Bank for Oneself

Statistics in Russia show 273 million active digital wallets and special prepaid cards designed to top up a digital wallet as at the end of 2014. It is a small figure compared to that registered in developed countries. The Strategy Journal reporters found out what can stimulate the Russian e-money market.

WorldPay expects annual e-wallet turnover in 2019 at the level of
USD 647 billion
compared to
USD 577 billion
spent using credit cards and USD 412 billion spent from debit cards

E-wallets will become the key payment instruments used on the Internet by 2019. This finding was announced in the research made by WorldPay. Analysts claim that credit cards will increasingly become less popular in online shopping. But this refers to the rest of the world, while in Russia measures to make similar services more popular were introduced considerably later than in western countries and today the technologies and infrastructure needed are still underdeveloped.

“Europe and the USA have been introducing and developing financial technologies and infrastructure for several decades, while we have been doing it only over the past ten years at best and only the last five years saw intensive introduction of such technologies. That is why the level of financial technologies in Russia falls far behind the developed economies. Obviously, in Russia it is still impossible to use services available abroad”, Denis Burlakov, Chairman at RBK Money, commented.

Whereas, it still remains unknown whether today’s population of Russia will see e-money replace cash completely, certain countries, such as Norway and Sweden, have clear plans to abandon cash by 2020. There are districts in London that do not accept cash at all, which is a result of deliberate measures introduced by the city hall believing that using cash is at least insecure and, strange as it may seem, expensive. “Why do banks charge such a big commission for their services? One of the reasons is that they need to sustain their infrastructure for the receipt and transfer of cash. Cash turnover costs much”, Denis Burlakov confirms. Another apparent advantage of a digital wallet compared to a bank account is that it requires the minimum of time and effort to create it, while it is as good as a bank account in any other respect. Such a wallet does not have to be identified – if its owner wants to keep his or her personal data secret they can easily do it. Although since recently those who do not want to disclose their data will have limited use of the wallet. This measure was adopted after amendments to the respective Russian law came into force in 2014. “If your e-wallet is not identified, you cannot keep more than 15 thousand rubles in it, while the total volume of its operations is limited to 40 thousand rubles per month”, Denis Burlakov explains. Moreover, you are unable to transfer money to another individual or non-profit organization, as well as pay for items purchased online from foreign internet shops. And we encourage most users to identify themselves, but this process should be most comfortable so that e-wallets maintained advantages over bank accounts”.

So far the regulatory framework in this field remains deficient. A simplified procedure of e-wallets identification does not work as planned by the legislators and, specifically, there is no data exchange between respective government authorities, i.e. the Federal Tax Service, the Federal Compulsory Medical Insurance Fund and the Pension Fund of the Russian Federation.

While the state claims its right to control as many transactions as possible, experts are assured that this can lead to the loss of interest in digital wallets and undermine confidence in the government. “Developed market economies enjoy a certain level of government credibility formed over many years. The government is aware of payers’ transactions, but does not interfere or voice any claims. People are not afraid of tax or intelligence services, it is a sort of a social pact that requires time for all parties to make sure they can trust each other”, head of RBK Money told the Strategy Journal. A big question is whether this will be safe for e-money owners.

Recently PayPal users were informed of the need to change their passwords. Computer hackers announced that they got access to 23.8 billion accounts of online payment system users. Security is a critical aspect for e-money users that can hamper the promotion of e-wallets among Russian people accustomed to keeping money in cash. The share of cash in the Russian

economy constitutes 78.6 per cent with the remaining 21.4 per cent not being entirely e-wallets. Can experts prove their reliability to make this proportion change?

They claim it is rather difficult to overcome several levels of protection against e-money fraud. Cybercriminals do not work as fast as security systems, since companies invest huge amounts in the so-called anti-fraud and data encryption systems. That is why one can say that security level is 99 per cent. The tokenization technology is becoming increasingly popular enabling to ensure maximum security of electronic payment with a reliable data encoding system. Using a card to make purchases buyers do not disclose their payment details to the seller, as all the card data are encoded and converted into the so-called token that looks like a random combination of symbols.

This electronic algorithm is used by all leading US and European payment systems. It has also been extensively introduced in Russia lately. Negative macroeconomic situation along with the doubts about the reliability of the systems prevents e-wallets from being widespread. "After the economic crisis broke out in Russia and many figures dropped people simply started getting nervous and came to trust cash more. Should there be no crisis we would steadily reduce cash turnover by 5 to 7 per cent every year. Payments made in cash do not exceed 25 per cent in such developed economies as the United States and Europe", Denis Burlakov says.

However, the main incentive for development is users' need to control and use their money with comfort and safety; and therefore there is really huge potential for the creation of e-wallets. "As a result everything should come down to the situation when one can take simple actions to shop and pay. There will be no need to carry a passport or cell phone all the time. People will become e-wallets for themselves. Biometrics (eye retina and fingerprints) will be quite enough to identify themselves as money owners and accomplish any monetary transactions. These technologies are already working and being extensively developed", Denis Burlakov concluded.

Experts claim e-wallet transactions, bank transfers and **direct debit payments** will account for **around 55 per cent of the total e-business cash flow** turnover by 2019

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Focus on Investments

Russian President Vladimir Putin recently said that focus on investments rather than borrowings and super profits from oil sales should become the key factor of economic growth in Russia during the global financial crisis. We discussed how this plan could be brought to life in Russian reality with experts including former Deputy Minister of Economic Development of Russia Sergey Belyakov and Managing Partner at E&Y Russia Alexander Ivlev.

Alexander Ivlev lists the key aspects as he sees them that should be considered as investment inflow drivers. They include regional development, implementation of large-scale infrastructural projects, consistent pursuit of imports phase-out policy and technological development accompanied by the upgrade of production facilities.

Do you think it is possible to switch over to the new growth sources in conditions of foreign capital outflow from our country? What can help to do it?

Investment activity of foreign companies has somewhat slowed down, but businesses continue to invest in Russia on a random basis. Russia was and still remains a country attracting investors. The crisis forces foreign investors to change the range of products and instruments – they turn their attention to the products and projects that will be in demand and this affects their business. Unfortunately, incomes are declining. The state continues to work on business climate improvement. Russia moved nine points up in the Global Competitiveness Report published by the World Economic Forum this autumn from the 53rd to the 45th place. This is a good indicator for the Russian economy. Some believe that a better rating is associated with the ruble devaluation , but I am sure that this is a positive trend that allows us to speak about certain stability of our economy. And what is also important, this proves that we have all preconditions required to set up competitive production with its output being highly sought in Russia and beyond it. Anti-crisis measures allowed Russia to stabilize the situation and avoid sovereign default. Oil prices and ruble exchange rate are now less subject to speculative volatility, while Russian strategic companies and largest banks do not show any signs of potential default.

The key drivers that can stimulate investments inflow and reanimate Russian economy could be regional development, implementation of large infrastructural projects, consistent imports phase-out and introduction of technologies accompanied with the upgrade of production facilities. We must certainly be prepared to wait, as it is impossible to accomplish everything over a short period of time.

What can become a source of new possibilities?

Around 2.5 billion mid-class representatives will appear in the next 15 years in the Asia-Pacific Region, which will considerably impact the structure of demand formed by 2030. Russia's willingness to enter Asian markets is a natural process entailed by the long-established trend demonstrating a shift in the global economy emphasis towards the East. We are now trying to find opportunities to become participants of the fastest growing market in the world, to carve out our own niche in the chain of suppliers that will meet the region's needs within the altered structural demand. The Asia-Pacific Region can become a consumer of Russian goods, food products, logistics services and infrastructure, while the Far East is a unique region capable of contributing to the economic development of the Asia-Pacific Region.

We should consider the world's best practices, adopt positive experience and adjust it to our market. The Canadian practice is a good example of such measures; a logistics hub was set up by the state and private investors in the very middle of the country that began expanding very fast as it served as a platform for many goods imported from the Asia-Pacific Region which were later distributed throughout North America. Roads, stations and storage facilities were built to ensure its efficient work. Canada very closely resembles the Far East from the structural point of view: low population density and mining industry with an insignificant downstream level. Why not adopt some elements of Canada's successful project in Russia?

Where should financing to implement all of these projects come from?

Russia has funds in its public treasury, although they are just enough, and is able to find certain resources and possibilities. This is a question of priorities: what one should invest in, to what extent and how this should be managed. We can't say that we are completely cut off from the international financial system. Surely, it has become more difficult to raise funds and work in the present geopolitical environment. However, appropriate governance measures can bring us to the goals we set. If we manage to restore a certain level of investor confidence in Russia's future and avoid changing the rules, capital outflow will stop. A country populated by 145 million people is a significant market for foreign investors. Russia is integrated into the global economy and is its essential part.

In fact, Asian markets experience a certain slowdown. Labor force grows more expensive, while profits are falling. Developed countries are beginning to realize that having shifted their production to the Asia-Pacific Region they lost a particular level of skills they had before and, specifically, many R&D segments. Having made China their outsourcer, 15 or 20 years later the USA and Germany understood that their own innovative segment began to fade away, while technologies were developing even faster and more efficiently in the new Asian markets. That is why many countries have found a way to recover bygone traditions by returning production facilities back from Asian markets.

How can you describe investors' behaviour during the crisis? Do you see any chaos in the investment market?

There is no chaos. Investors have adopted a wait-and-see approach, but we need a steady government policy to convince them to invest money (since any crisis is a possibility to consolidate relations and strengthen one's own positions). The findings of the survey conducted among foreign companies that are members of the Foreign Investment Advisory Council are rather interesting: 77 per cent pointed to the inconsistent government policy in the sphere of regulation as a major barrier to investments nowadays, but despite the fact that 90 per cent of companies consider the present economic situation in Russia difficult, half of them have plans to expand further their business here, as they see a long-term growth prospect.

What instruments were employed to boost the appeal of investments in Russia? Are these measures sufficient?

Despite the ambiguous economic situation in Russia, the system of priorities for the country's development remains rather stable. From the currently implemented projects I would single out support of export-oriented manufacturers and imports phase-out, large infrastructural projects, initiatives to develop entrepreneurship, maintaining a privatization vector, search

The Central Bank of Russia registered
a capital inflow
of USD 5.3 billion
in the third quarter
for the first time in five years

of new partners in the East and developing markets, growing attention to regions and their development. As a member of the National Investment Climate Rating Committee for Russian regions I can see the result of these initiatives. I would also like to draw the attention to the targeted work with investors. For example, the government adopted the Federal Law "On Special Investment Contracts for Selected Industries". Investors that have entered into special investment contracts set up, upgrade and develop industries within Russia, while the state undertakes to offer them incentive measures envisaged by the effective law and create a stable environment for business. I believe that in the next two or three years we will witness a series of other interesting changes. Gradually, business activity will recover. What is most important is that capital outflow is expected to fall compared to last year. Decline in foreign investments will stop after it reaches a certain level and I think four or five years later we will see a reverse and positive trend.

Sergey Belyakov claims that the state role is excessive in terms of its presence via municipal institutes and state-owned companies. He emphasized that a few years earlier there was much debate about the need to reduce the state share in economics, however when it was discussed the government share was even smaller than today.

Vladimir Putin said that focus on investments rather than borrowings and super profits from oil sales should become the key economic growth factor in Russia in the midst of the global financial crisis. Is it possible to shift our interest towards other growth sources when foreign capital flows out of Russia? What can be done for this?

This statement is true, emphasis should be made on investments. However, I don't think we should abandon borrowings. Debt financing is a good instrument, although to employ it the government shall have a predictable state economic policy. But focus shall be made on attracting investments. The need to raise investments has been discussed for rather a long period of time and is repeated year after year, which causes concern. I think that statement made by the President has not become a revelation for anyone. The problem is that this statement has not been supported by any specific actions or they are insufficient to ensure investment appeal of the economics. Besides, capital owners still prefer other jurisdictions, while legislative and law enforcement conditions in Russia make both investor and investments vulnerable.

Another problem is the constantly changing rules. Surely, capital owners do not feel comfortable enough when the terms of investment can change dramatically at the decision-taking stage compared to the terms that existed in the course of project implementation. This unpredictability is a significant factor affecting capital outflow. To make investors come and keep the Russian capital there should be a security guarantee, sustainable environment for investments and capital turnover.

This goal should be a top priority not only for the economic authority, but also for law enforcement agencies and judiciary systems. In my opinion, law enforcement agencies have not worked efficiently enough so far. Businesses always make mistakes, but every mistake is interpreted as a crime. Such close attention of law enforcement agencies is not helpful for business development.

The state shall stop acting as an economic and commercial entity. The present extent of involvement is excessive. It is so enormous that makes it impossible to fulfill regulatory functions effectively. The judicial system always takes the side of the state in any conflict between the state and business. Besides there is a range of barriers business constantly has to overcome.

How can you describe investors' behaviour during the crisis? Do you see any chaos in the investment market?

I can see standstill, rather than chaos. The current environment and economic situation are not suitable for investments into development. That is why the earned capital is saved partially in Russia and partially abroad. We see capital outflow or investments in other economies. This problem is relevant for all countries, as the global economy is generally experiencing difficulties.

The Ministry of Economic Development of the Russian Federation improved its outlook for capital outflow from Russia at the level of USD 72 billion as of the end of 2015. Next year this figure is expected to be even smaller and amount to USD 57 billion

The question is more acute in Russia. This is because our economy has been recently growing faster than the global one, and now it is even slowing down. This is a negative trend and many prefer to refrain from investments. The figures of the past years show Switzerland, Great Britain and the Netherlands being the largest investors in Russia. The list of investors includes even Luxembourg, while China closes the list of the top ten investors. Why? If we look at the geographic structure of direct investments, we will see that they are reinvested capital channeled elsewhere. Essentially, these are Russian funds that were initially exported to other jurisdictions. Such schemes guarantee businesses certain capital safety. That is why money is first exported, safeguarded by other countries' jurisdictions and then reinvested in the Russian economy.

As for China, trade turnover between our countries has grown considerably. Surely, this is the result of the policy aimed at developing our relations, but I would not be so optimistic. Projects hardly progress. The Chinese are not very flexible in negotiations in terms of project funding, no matter on whose territory they are implemented. Moreover, the Chinese are very sensitive to the question of profit they will receive. That is why we must not expect that Russia is going to be the only beneficiary party. At the same time if we refuse to cooperate with our traditional partners, we risk to become a hostage of one partner. That is why I believe that our pivot to China does not mean that we should break our relations with the EU and the USA.

What latest instruments were employed to boost the appeal of investing in Russia? Are these measures sufficient?

Administrative barriers are being lowered for businesses, but certainly this alone will not be enough. I have already mentioned this. We should change the complete paradigm of the state policy relating to the control of business activities, try to predict any abuse using notifications and expect entrepreneurs to make mistakes and simply warn them against possible law abuse. Unfortunately, abuse is unavoidable, which is not a reason for erecting barriers. The judiciary system also has to be improved with the enhanced role of court rulings, which will stimulate legal entities to comply with the law.

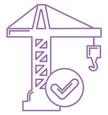
There should exist the risk of both incurrence of such liability, and its consequences and first of all financial consequences. A good instrument to raise private investments is public-private partnership. But legislative changes on the federal level alone are not enough.

Certainly, tax legislation should also be mentioned. The state should ensure sound tax legislation and avoid increasing tax burden whenever possible, especially in the situation when business must be given chance to recover in the crisis conditions. Long-term pension funds that are used all over the world as the primary investment resource could become a tremendous resource for raising investments in the economy. We are trying to withdraw them from the economy by distributing among the present pensioners, while this resource shall be substituted for by state funds. We have assumed huge social responsibility and continue assuming it instead of thinking of how to create capital that can be further distributed. We are trying to sell the skin of a bear before one was caught. Our economy is also very socially-oriented. It is impossible to fulfill so many social obligations given economic disbalance. We would be able to afford it if the scale of our economy was tantamount to the Chinese or American one, but we are assuming obligations that are impossible to meet.

Is the national investment rating an instrument for attracting investments or it does not work?

I would not say that it does not work. Governors have started thinking about the region's place in this rating. They try to find the reason for such a result. The rating is a result of all the activities carried out in the region and it is an incentive for governors to be proactive. It also incorporates the Strategic Initiatives Agency and best practices standard exchanged by the regions. This is a sort of an attempt to make governors think, what can be done in the region given that not all measures are universal. The main thing is to ensure that the figures in the rating are intended not solely for reporting purposes.

It would be great to see the effect in the regions that are not among the leaders. All the 75 constituent entities should catch up with the top ones in terms of the figures. What is more important, efforts taken to improve the conditions for business should not boil down to the change of their place in this rating. They should enable businesses to actually develop so that this could be assessed not only at public conferences, events and meetings, where businesses often have no opportunity to voice all the painful problems given their dependence on governors, federal authorities and their territorial administration.



Russia is on the
51th place
in the World Bank's
Doing Business ranking
and has climbed
from the 156th to the 119th
position in one of the most critical categories – dealing with construction permits

Text: Galina Fyodorova

Budget as the Only Hope

Experts predicting a long-term crisis expect the return of the 1990s when the population was left alone with its problems. However, whereas at that time people managed to find niches that helped them survive, the population of today has no alternative. Tatyana Maleva, Director of the Social Analysis and Forecasting Institute at RANEPA, told about falling into the same trap, new growth scenarios and social indifference.

Have you formed your opinion of the Strategy 2030? What path will we choose: oil, people or some new options?

It is not the best time for long-term concepts including the Strategy 2030. The present situation is so volatile that it is very difficult to predict development for years ahead. Even long-term social baselines are difficult to form, as strategies and concepts are not taken into account developing solutions. We see today that the Strategy 2030 lists goals different from those outlined in the budget of the upcoming year that are quite the opposite. As one of the authors of the Strategy 2020 and the Coalition for the Future, I believe that such documents are intended for brain training, as previous strategies remained gathering dust on the shelf. I cannot say that they were or will be of any importance for elaborating an economic policy. How can I be sure that the Strategy 2030 will be brought into life, if the Strategy 2020 has not been implemented?

Events that have taken place over the last decades since mid 1970s demonstrated that Russia has only two resources: oil and people. Today, we see a forming triad – the hydrocarbon resource and human capital are supplemented by armament. This becomes visible from the adopted 2016 budget that I call antisocial. A striking example is pension indexation by 4 per cent instead of the expected 15 per cent. The budget demonstrates a clear avoidance of social commitments, including those undertaken on January 1, 2015, when the new pension reform came into force. The state complied with them for precisely four months before launching a campaign to review the strategy. I would not insist on the indexation as the key element of the pension formula, but I am strongly against such a strategy of behaviour. What confidence can a strategically important document inspire if no long-term interests of economic entities are envisaged?

What consequences can underindexation of pensions entail?

The state will lose more than it expects to save. With the inflation rate being from 13 to 15 per cent, indexation by 4 per cent is a step towards actual reduction in payments. The consequences will be rather sad. First of all, people as an economic entity rather than a social recipient will not retire at the legally specified age, as pensions will be no longer attractive. We have already seen this in 2005 during the monetization of social benefits. Mistakes committed called for urgent unscheduled and unprecedented indexation of pensions by 36 per cent.

Second, taking into account the pay-as-you-go pension (PAYG) scheme that is currently applied in Russia, the welfare of today's pensioners depends on the financial standing of the working population. The government believes that it cuts pension for only 38 million people that make up a quarter of the population. But this is not entirely correct. Russian pensioners are part of 42–52 per cent of families. This means that pension is not spent as an individual income, but is an element of a household's budget. Poverty risks are not in fact limited to 25 per cent of the population; they will affect a far greater number of people. Third, reduction of social expenditures (pensions, educational allowances, social security benefits or switch to targeting) in practice means cancellation of certain social programs that will increase poverty among Russian people. If it becomes a widespread and deep phenomenon, the state will have to introduce poverty-relief allowances to avoid social turmoil.

“Pension is not spent as an individual income, but is an element of a household's budget”

To what extent can armament as a priority area become effective?

I think the crisis will last a long time. We see its beginning now, that is why collapsing people's income will be a mistake from the start. It is clear why the state failed to take into account the real threat of a situation in which we actually have to abandon pension indexation. We are unable to affect oil prices and therefore are currently in the idle mode, while the state made its choice facing a dilemma of whether to invest in people or armament.

To sell weapons systems at the global market efficiently, they should be in demand, which means there have to be either conflicts or tools for their prevention. It seems that our investments in the defence complex have led to a positive outcome. The so-called mobilization scenario was formed of all economic development scenarios. Development of the defence complex can in theory entail development of Russia's economy and become a growth driver. The international practice confirms this assumption, but this approach does not work in our country. In the 1970s we already saw our militarized economy devour itself and lead to the collapse of the country.

What possibilities for overcoming crisis and avoiding poverty are available to the population today?

The state has the right to pursue any policy, but it should consider its consequences and foresee the behavior of economic entities.

The 1990s saw the boom of unstructured commerce, the so-called "shuttle traders' business", there were sectors of private farm holdings, small businesses and non-profit organizations. All of them helped to ensure employment and incomes. There also existed an informal sector we knew nothing about, which predestined the formation of a considerable share of shadow economy that became our curse. Informal trade no longer exists; it has lost to large-scale retail chains. Private farm holdings have faded in importance, many farms have turned into garden plots with summer cottages where people grow flowers, but the behavior pattern under which people could live on what they grew in their gardens has become history. As a result, small business failed to succeed. In the 1990s it faced plenty of requirements, at the same time there was entrepreneurial freedom. No other form apart from large businesses can exist in Russia, small and medium-size businesses will never survive here, which is typical of a large country. The NPO sector has come across so many political and other requirements, that it is unable to create the desired number of socially-oriented jobs today. Only non-profit organizations that distribute state funds effectively can survive nowadays. Our only hope is the budget. I am not saying that there are considerably fewer survival models today, I cannot see them at all. We are turning into prisoners of the overall macroeconomic situation and the state.

Will this lead to large-scale social unrest and protests?

Everyone believes that there is a linear relationship between the difficult economic situation and social tension, however it is not the case in Russia – people here are stricken with social apathy. The population fences itself off, does not trust the state, does not enter into any relations with it and behaves in a manner contrary to the state's desire. This is Russia's model of the 1990s. At the outset of economic growth we believed that the country would build itself rapidly and smoothly, performance will grow dramatically. And the upsurge of the 2000s began due to oil prices growth. There was neither imports substitution, nor a technological breakthrough, because the population reacted very passively. Thus, despite the support of the business sector with easy money, its growth was not very fast. This shows that the population does not react to the impulses sent by the state. When pension reforms are carried out, people either turn their back or are silent that is why the defined contribution pension system was unsuccessful: some people ignored it, others switched over to shadow schemes unwilling to pay pension charges and unhappy with the pension rate. The state and people can agree on their stance towards Syria, Ukraine or any other foreign enemy, while they are unable to agree on economic growth, high production efficiency, competitive ability and imports phase-out.

Can the problem of poverty be solved by distributing material assets, as for example, by introducing a wealth tax?

Wealth can be easily hidden in Russia by means of splitting, and in this context our legislative framework is completely immature. Material assets can be redistributed, but we know well from our own history how efficient this mechanism is. The redistribution model existed throughout the Soviet period. This is a question of social justice, rather than economic efficiency.

What do you expect to happen in the nearest future?

The worst thing in our situation is that 2015 will close with negative, although not disastrous, macroeconomic indicators. The entire drama lies in the qualitative change of the situation. More important than the question of the extent to which the financial standing of the population, economy and budget deteriorated, is the fact that such major impulses as devaluation, market limitation and elimination of competitors failed to result in institutional or actual changes. No growth points have been formed and no rise mechanisms have become effective. We now have ideal conditions for internal growth – the country has become twice as cheap and twice as attractive, but investors have not come to us. Moreover, their number continues falling. At the same time, the country does not have an essential amount of internal investment resources. While banks and business no longer trust the state, which is reasonable as agreements between them are breached often and considerably. In general, the system of motivation and impulses is falling apart. We can expect growth, if a single sector with a disproportionately large value, incidentally helps the whole country recover.

Any economic entity can choose whether to earn or save. All Russian economic entities automatically agree with the second option without any discussions. At the same time, the two factors have various degree of flexibility: earnings can be unlimited, while savings are minor. Cost-effective economics can help enter the growth path, but it should not be a goal. What can help us grow? Armament is the only solution, in my opinion. But if we fail to overcome dissociation of economic entities, investment climate will not change dramatically, there will be no growth and development.

"Wealth can be easily hidden in Russia by means of splitting, and in this context our legislative framework is completely immature

From Immanuel to Emmanuel

The story of a distinguished entrepreneur could be easily narrowed down to a list of achievements and mistakes, but it is more interesting to look at this story as a system of ideas, strategies and traditions. Ksenia Drugoveiko, columnist of the Strategy Journal, tells about the creation of the first socially responsible business empire in Russia.

St. Petersburg. Mechanical workshops in the factory "Ludvig Nobel" (after 1918 "Russian Diesel")

Swedish Key to Russian Rockefellers' Success

After all, the story of the entrepreneur, sometimes consistent, sometimes random, could be described as a formula defining the mechanism of certain business success. As for the Nobel family, the ticket to success was a talent to foresee the future and benefit from it in the present. And this talent was revealed in two dimensions: the Nobels anticipated not only industrial and economic , but also public realties of the contemporary world. The surname 'Nobel', not typical for Swedes, originally derived from the settlement named Nobbels where Peder Olafson was born in the middle of the 17th century. Being a peasant by birth he managed to become a student of Uppsala University. Rushing to reject his rural roots, he changed his name to Petrus Olavi Nobelius.

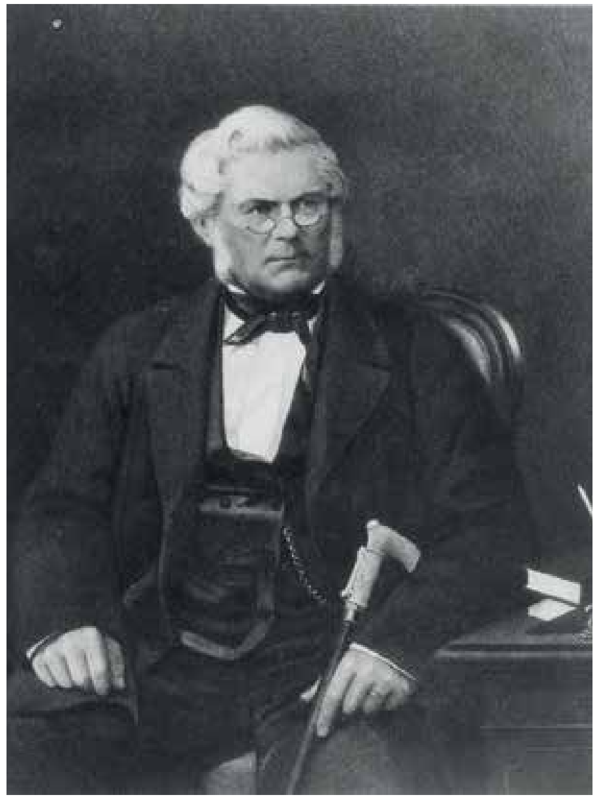
A century later one of his descendants shortened the pretentious Latin surname, and another century later its new version became known all over the world. Today this surname is associated first of all with "Europe's richest vagabond", a great pacificist and charity giver Alfred Nobel. In Russian history a special mark was left by his father Immanuel Nobel and elder brothers Robert and Ludvig. The son of a poor military man from Gavle on the shore of Gulf of Bothnia, Immanuel Nobel (1801–1872), became an orphan at tender age and tried himself in many spheres. Being hired out as a sailor boy to a merchant ship at the age of 14, he visited the Mediterranean region and the Middle East. In Egypt he worked at construction sites of Muhammad Ali Pasha. And he turned out to be so good in engineering that after returning to Gävle he became a city architect. By the time King Carl XIV visited the city, Nobel had constructed a triumphal arch, the King was so impressed by his work that made Nobel his grant-holder and sent him to study at the Royal Swedish Academy of Arts. Immanuel Nobel also graduated from the Academic School of Mechanics. He found out that his real passion was inventions. But he did not succeed in this field at first; nobody was interested in his mines, boat bridges, household mechanisms and inflatable air beds.

In 1837, Nobel being married with three sons had to face another tragedy – his family house burnt down. Unable to deal with creditors, Nobel had to leave his family in Stockholm and move to St. Petersburg: in the midst of the long-awaited industrial revolution the Russian capital welcomed foreign guests with pleasure. Immanuel Nobel attracted the Tsarist government's interest by inventing a sea magnetic mine. In 1842, when his family joined him in St. Petersburg, Immanuel Nobel together with colonel Nikolay Ogarev (the future Aide-de-Camp of Nicholas I and Head of Pulkovo factories), founded an engineering shop which soon grew into a large factory.

High-speed development of the industry provided the factory with standing orders for machine tools, steaming machines, rails for the first railways and the first in Russia central heating pipes; along with mines, weapons and marine engines ordered for the needs of the Crimean War. But very soon this war and the death of Nicholas I, a patron of the Swedish entrepreneur, made him a bankrupt: the new government terminated all the contracts with him and sold the factory at an auction; Immanuel Nobel returned to his homeland in 1859 as poor as he left it 22 years before. His younger sons, Alfred (1833-1896) and Emile (1843-1864), soon went after him to continue experiments with nitroglycerine started in Russia.

Black Gold of the Branobel Empire

Meanwhile, his other sons Robert (1829–1896) and Ludvig (1831–1888), who inherited from their father engineering talent and philosophical approach to failures, decided to continue their father's work in St. Petersburg. In 1862, Ludvig leased a land plot on the Vyborg Side where some branch works were located and soon turned them into a powerful military plant that was to become the main weapons supplier for the Russian army during the Russo-Turkish War of 1877–1878. Four years before the war his brother Robert went to the Caucasus aiming to organize the purchase of nutwood needed to make gun butts. There, on the shores of Apsheron, near the village of Baku, he found oil. Some time before, Robert Nobel owned an oil shop in Helsinki, and thanks to that he already knew how to refine and distill this flammable liquid, the use of which was unclear for people: the only oil products were kerosene and lubricating oils. Soon the eldest brother opened a small oil refinery in Baku. At first, it was similar to 200 other refineries. At that time John Rockefeller's Standard Oil was taking over the world. Inspired by success of the first American multi-millionaire, Robert, Ludvig, Alfred and their friend and co-founder colonel Peter Bilderling established Branobel Company ("Tovarishchestvo Brat'ev Nobel") in 1879. Due to a range of their scientific and administrative solutions, in twenty years it became the leading oil producing and refining company in Russia and later in the world. This was the first Russian vertically integrated oil company performing all technological cycles of production: from oil fields exploration, drilling and development to refinery and sale. Essential for to the company's development were oil tankers invented by Ludvig. From 1913, having its own fleet, Branobel Company annually exported more than 4 million tons of liquid cargo from Astrakhan. Passing through Batumi and Novorossiysk, the products were sent to Turkey, Italy, Austria, Tunisia, England and France; while across the Baltic Sea exports went to the Netherlands, Germany and Scandinavia. Furthermore, the Nobels were the first who solved the problem with petroleum residue. Branobel Company designed and entered mass production of nozzles



Astrakhan. Swedish industrialist Immanuel Nobel

spraying masut in a steam jet, which allowed burning unusable waste in stationary steam boilers. The Branobel Company constructed the first oil pipeline in Russia. It paid off within a year and reduced the cost of oil transportation from fields to refineries seven times. Local oil producers who depended on the new infrastructure soon started to construct their own pipes. In 1913, as a result of all innovations, the company's balance amounted to more than 186.5 million rubles, dividends constituted 26%; the annual output reached 93 million rubles, while the number of employees was 30 thousand people. In early 1917, the capital increased during the existence of the company 10 times, reached 30 million rubles. Nobel enterprises were located in dozens of Russian provinces, from Apsheron to St. Petersburg. A significant role in the Nobels' success was assigned to their unconventional relationships with competitors: the Branobel Company did not try to trample the

St. Petersburg. House of Swedish industrialist Emmanuel Nobel where the Board of Directors of the Partnership "The Nobel Brothers" was headquartered

competitors, on the contrary, the Nobels supported them offering to build a partnership, but maintaining the attributes of independence. The Nobels expanded their network of agents using the potential of less successful manufacturers and abandoning the idea of a trade secret (all the experimental data were available to public for the benefit of manufacturers and consumers). From the end of the 19th century, the spheres of influence were divided between the Nobel brothers and the French branch of the Rothschild family (in 1911, they transferred their Caspian and Black Sea company to Shell). Having concentrated above all refinery and delivery to consumers in their hands, they made other even major businesses dependent on them. The only attempt to break the monopoly of the "two pillars" was the establishment of the Russian General Petroleum Corporation in 1912 that bought up shares of several companies. However, the Balkan crisis that broke out in the fall of that year caused their collapse; the Nobels later bought a large stake in Russian General Petroleum Corporation and took over the latter by 1916.

Three Levels of Responsibility

Decent remuneration for work depending on the company's overall performance was the Nobels' key principle: 40% of profit was distributed among the employees. As representatives of the European culture, the Nobels unlike most of the Russian entrepreneurs were the first to appreciate the role of social factors in production, i.e. responsibility to employees assumed by Branobel involved three key levels. Firstly, employers and employees established transparent labor relations: when applying for a job all the employees received a pay book containing internal rules, detailed hiring and firing procedures, payment regulations, the procedure for using a corporate apartment, steam bath and medical care, employees' duties and complaint filing procedure.

Information on penalties for violation of labour discipline was attached to the pay book. In addition, the Nobels were the first in Russia to replace a 14-hour

Oil fields of the Partnership “The Nobel Brothers”

with a 10-hour workday at their factories. They also abolished humiliating body searches at the end of the shift. Moreover, the Nobels established fully electrified residential settlements with apartments for workers’ families and barrack rooms for bachelors almost in all cities where they had built up production. Primary schools and school transport were provided for children. These settlements ensured efficient and healthy living: work, household activities and recreation. One of the first Nobels’ towns – Villa Petrolea near Baku was the most famous one: it was designed to accommodate 100 senior employees and their families, apart from residential houses there was a pharmacy, theater, club, library, billiards, bowling, etc. There also was a magnificent park Rote Fahne with a flower garden and greenery. Gas was supplied from the factory to the houses for cooking and heating; there was a telephone and air conditioning that was absolutely incredible for the end of the 19th century, and allowed maintaining temperature at 15-20C during the summer. In St. Petersburg, the Nobels built a whole neighborhood around the Russian Diesel plant with central heating and bathrooms. The Nobels actively worked for charitable causes of all sorts spanning consumer and educational support of their workers to financial assistance to scientists and establishment of awards and scholarships.

For example, academician Ivan Pavlov received 400 rubles in gold for research, support was lent to the engineer and inventor Vladimir Shukhov. In 1898, Ludvig’s son Emmanuel (1859-1932), who took charge of the factory when his father died, bought an expensive patent for the invention of a combustion engine from the unknown at that time German scientist Rudolf Diesel, and Emmanuel was the first in the world who managed to commercialize production. In general, Emmanuel Nobel actively advocated for the unification of science and business. In 1891, he purchased a Repsold apparatus for the Pulkovo Observatory at his own expense. He also decided to establish a seismic station in Baku and set a task to the scientists to monitor the activity of oil gushers using its instruments. On the businessman’s initiative and with his financial support, the study of geophysical movement of the Apsheron Peninsula and the problem of reducing the Caspian Sea’s level was launched. Aiming to protect his employees from cholera and other infectious diseases, bursting out from time to time, Nobel actively collaborated with the Institute of Experimental Medicine in St. Petersburg. In 1889, Branobel established Russia’s first Nobel Prize for outstanding work in the metallurgy and oil industry. The prize and a gold medal were awarded every three years. Branobel established three scholarships at the St. Petersburg State Institute of Technology, and one scholarship at the Mining Institute, Craft Institute of Crown Prince Nicholas, the Commercial College and Baku non-classical secondary school.

Individual grants were also given to needy students during their study, in addition to the tuition fees. Ludvig’s daughter Martha Nobel-Oleynikova, a trauma surgeon, built an ophthalmology clinic at the St. Petersburg Medical Institute at her own expense, and opened a hospital and an orphan asylum during the First World War. At the expense of the Nobel family, the “People’s House” was opened in St. Petersburg in 1901, where workers could attend open lectures on history, natural and technical sciences, watch concerts and visit a library; a school was established for their children and a special fund was formed to provide employees with financial assistance and grant scholarships for their children’s education.

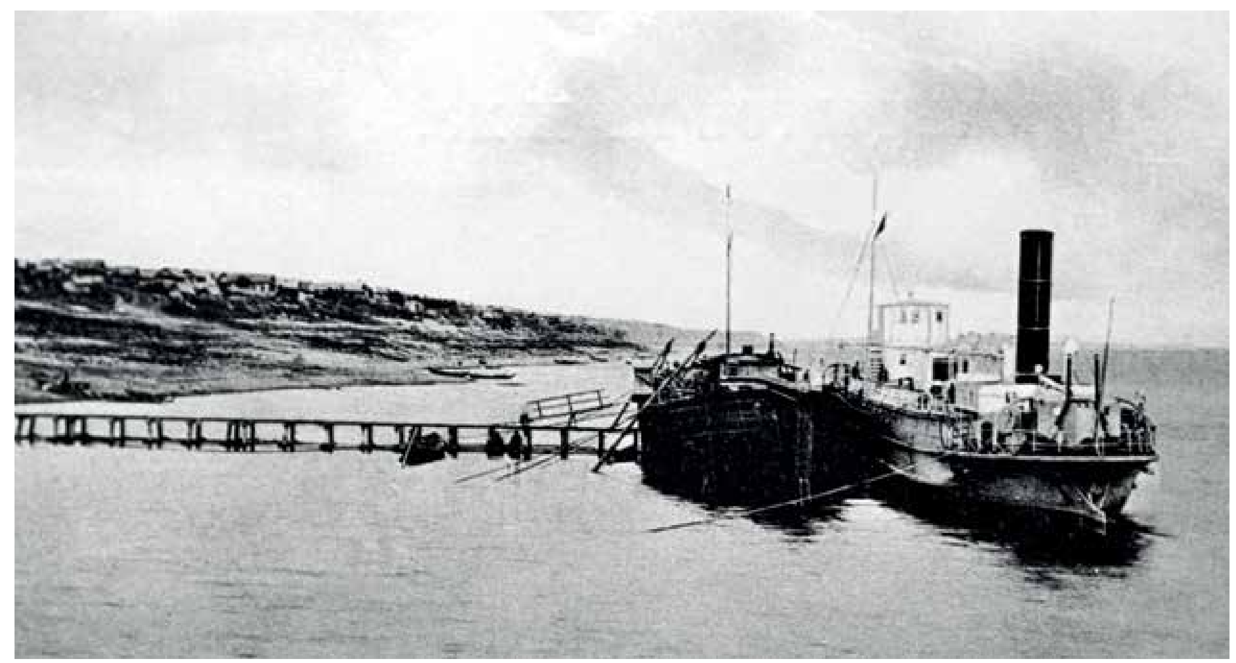
Furthermore, by the beginning of the 20th century, Nobels built almost two hundred houses, dormitories, canteens, hospitals, pharmacies, schools and libraries.

A Blot on the Landscape

A combination of humanistic and selfish motives, natural for every large entrepreneur, was revealed in the Nobel brothers’ business as well.

The rapid growth of oil production turned Baku into a prosperous green city, encouraged the development of a modern infrastructure and provided thousands of highly paid workplaces, but there was a reverse side: exaggerated use of oil as energy fuel influenced the sharp decline in production and consumption of coal (from 1867 to 1901 coal production increased 39 times, while oil production grew 673 times). Such a shift made the Russian economy dependent on the oil industry at the beginning of the 20th century and had more vivid consequences.

After the appearance of internal combustion engines (the efficiency of which was from 5 to 6 times higher than that of steam engines) the Russian focus on the Nobels’ method of fuel oil burning in boilers became a regressive phenomenon. Transition to the internal combustion engines implementation slowed down, the car industry lagged behind. This industry that barely emerged in the Czarist era, stopped for many years. However, the reason for energy and manufacturing misbalance was a complex of internal and external factors. The Nobels’ activity and its stimulating effect on the development of new principles of business relations in the country (partly lost, partly preserved and developed during the Soviet era) appeared to be far more good than bad. Among all Russian entrepreneurs who had turned to the idea of socially responsible business they were the only ones who implemented it in full. The Nobels deliberately abandoned the abstract mental peculiarities of Russian workers and employees. The other entrepreneurs usually referred to them and could not dare to reject the prejudices harmful for the development of national business.



Samara. Unloading of the steamship “Nobel”

Revolution in the Air

Bankruptcy of one of the market leaders, its redistribution and controversial decisions of supervisory authorities make the aviation industry capture the headlines. Kirill Androsov, Chairman of the Board of Directors of Aeroflot, tells about the air carriers' reaction to the recent developments, airplanes' "infantile diseases", prospects of the Russian aircraft industry and management quality.

Why is Russian air carriers' fleet formed basically of foreign aircraft? Do Russian aircraft manufacturers have any chance to supply at least an equal share of the total number of aircraft used by airlines?

Nowadays, there are two manufacturers of long-range airplanes flying to overseas destinations, as, for example, Asia. These are Boeing and Airbus. Airbus supplies such models as 330, 350 and 380, while Boeing produces 777, 747 and 787. In fact, all of these models compete with each other. Russian manufacturers do not make long-range airplanes. The last one we had was Il–96 with Il–86 and Il–62 as its predecessors. Il –96 is no longer in production, which means that despite our wishes Aeroflot is unable to purchase a long-range aircraft in Russia. As far as I know, the United Aircraft Corporation (UAC) has no strategic goal to reanimate the production of long-range airplanes that is why we fly A330 and B777. Boeing 737 and Airbus A320 are the most popular models among the single-aisle medium-range aircraft. I can definitely say that from 50 to 55 per cent of the overall scope of air transportation is carried out by these planes. These are airplanes that form the basis of the Aeroflot fleet, are operated in Central Russia, beyond the Urals, at all European destinations, including long-haul flights to Lisbon or Barcelona. However, this type cannot cross the ocean and will hardly reach Shanghai or Beijing. Some time ago the UAC took a strategic decision to launch the MS–21 project to compete with Boeing 737 and Airbus A320.

Is the company interested in acquiring this jet airliner?

We are looking forward to receiving this airliner Under the contract we have obligations to purchase 50 jets. As soon as the Russian MS-21 is certified, Aeroflot as a national carrier will do its best to increase the share of these airplanes in our fleet to the maximum extent. Should they at least closely resemble B737 and A320 in terms of commercial characteristics of fuel efficiency, passenger capacity and cargo capacity, we will immediately switch to them and make them the basis of the single-aisle aircraft fleet. As for regional planes operated within the distance of 2,000 – 2,500 km, previously we carried out these flights using B737 and A320 (which was not always efficient), but today we have Sukhoi Superjet 100. We were pleased to include it in our fleet and we have around 30 planes in service today with 50 being contracted. Certainly, we came across "infantile diseases" at the start of the operation. All the airplanes of the above mentioned modifications had these problems. According to experts, even for Tu–154, our famous airplane that was largely used, it took five years to put it into service and correct errors that could not be anticipated at the design stage. Aeroflot has operated SSJ for three years. Airplanes we receive now are commercially more suitable for operation than the first modification. National air carriers all over the world are always compelled to assume both risks and expenditures associated with putting planes into service for subsequent long-term commercial operation. I am convinced that the same destiny awaits SSJ 100. The fact that it is now being purchased by both Mexico and Indonesia is a good sign for me showing that we all are on the right track.

How can you comment on the appearance of the new Chinese aircraft C919? Does it have good prospects?

The plane has been commercially operated in China for less than a year. We need one more year to be able to understand, whether it is considerably better than SSJ 100. Under otherwise equal conditions we will surely give our preference to Sukhoi Superjet 100.

Does the company plan to expand its network of short-haul lines?

Short-haul services require not only airplanes, but also an airport. We definitely have passengers and this destination is definitely popular, as not all regions are covered with railways, while road service is often underdeveloped. However, airport infrastructure does not always meet safety requirements of the civil aviation. An airport is not only a building, but also a parking ramp and takeoff runways that under the Russian law shall be federal ownership and, consequently, shall be financed from the state budget. Given the fact that the federal budget is limited, I am not sure that the state is able to develop airports somewhere in Nyagan, Blagoveshchensk and Petrozavodsk. These are medium-size urban areas, but no matter whether they are in Sheremetyevo or Nyagan runways should be of equally good quality, which costs much. Airplanes will be there as soon as airport infrastructure is developed.

What signal does the bankruptcy of Transaero send to aviation market players?

If the debt/EBITDA ratio equals 50, this should be a signal to any sensible manager that there is need to either increase incomes or cut down the debt burden. If you ignore both and strongly believe that the market will grow and will save the situation, unfortunately this can result only in bankruptcy, which happened to the company. It is a signal to all of us to be more careful with the

"An airport is not only a building, but also a parking ramp and takeoff runways that under the Russian law shall be federal ownership and, consequently, financed from the state budget"

strategy, our growth model and expenditures to avoid commercial failures suffered by Transaero managers.

Who will take care of the flight routes serviced by Transaero?

The Ministry of Transport has split the routes among the carriers for the coming year. Of 110 routes 56 were offered to Aeroflot with the rest of them being distributed among other market players, such as S7, UTair and Ural Airlines. Then, the Ministry will assess the results of our performance on these routes, and will either reserve them for us on the long-term basis or redistribute them. If passengers need to fly somewhere, they can always choose a foreign company, such as Finnair, Air France and Lufthansa actively operating in the market along with the Russian ones.

Will the company be able to manage the growing scope of work?

Aeroflot is prepared to face the growing workload as some time before Transaero started experiencing problems, the Aeroflot Board decided to focus on three products. These are Aeroflot, a premium class product, Pobeda, a low-cost carrier and the mid-segment demonstrating high demand and actually undertaking the bulk of civil transportation. We are going to merge Donavia, Orenair and Rossiya Airlines on the basis of the latter. Thus, we are creating a new product for Aeroflot in the medium price segment with a little lower quality of services and more affordable prices for passengers. The destinations we inherited from Transaero are likely to be distributed between Rossiya Airlines and Aeroflot. I have never considered Transaero to be a competitor as we worked in different price segments.

Does Pobeda meet financial expectations?

The low-cost carrier Pobeda is the fastest growing airline in Europe. We expected it to be loss-making in the first two years deliberately and consciously investing in this project and being prepared to compensate for its losses. We can already see that in 2016 the company will demonstrate operating profit due to the business model we chose and performance efficiency management strictly following the selected strategy. Pobeda obtained a license for a whole range of international destinations. We planned to try them in summer 2017, but it appears that we will be able to do this earlier, in the winter season of 2015 – 2016. We see that there is demand for this product: the occupancy rate remains at the level of 80 per cent, which is even higher than demonstrated by Aeroflot.

As for the international transportation, has growth dynamics changed in this sphere recently?

Official statistics registered the share of international flights decreased by a few percentage points, while internal flights have grown by several points. This means that our passengers started traveling in Russia more than abroad.

Does it make sense to influence passengers using economic incentives in order to restore the volumes of international flights?

A person willing to travel abroad will definitely find a carrier. Given the economic decline everyone is taking a decision whether to spend money on their vacation or to save it and switch from consumption to saving pattern. We are unable to influence this and there are no economically tempting offers that can help here. Recovery of economic growth is what we need. Travels to international destinations are a direct derivative of the country's economic growth.

The Federal Property Management Agency announced the forthcoming privatization of Aeroflot. Is the company ready for it?

At any time when the owner decides on the full or partial privatization of Aeroflot the company's management and board of directors will be ready for it. Today, Aeroflot is one of the most open companies in Russia in terms of shareholders' structure. We do not have a single shareholder, except for the state and Rostec that have over 1 per cent of shares. The company is owned by a few thousand of individuals and legal entities, including international funds. I don't think anything can fundamentally change. Perhaps, the number of independent board members will grow or the quality of corporate governance will improve, which can be only welcome. The question is always in the choice of the right moment.

How would you comment on the decision of the Interstate Aviation Committee concerning Boeing 737?

It is more than strange to say that the 148 airplanes operated in Russia and 8,000 jets doing great job by performing civil flights all over the world every hour are dangerous. I do not quite understand the decision of the IAC regarding the failure to fulfill some instruction that was brought up precisely after Transaero's operator license was revoked. Was it not so critical before? It is an extremely strange and short-sighted story.

“Our passengers have started traveling across Russia more than abroad”

Flight Mathematics

The Russian civil aircraft manufacturing industry has finally began returning to life: Sukhoi Superjet 100 has been launched, MS-21 passenger jet and Il-112, the new age of transport aircraft, are being designed, while Russia and China consider creating a wide-bodied airplane. Related sectors are also recovering.

Walls inside the Integration Centre are covered with photos of the modern Russian airliner MS-21 posted here and there. One of them shows it waiting for take-off clearance in the Irkutsk airfield or gliding through the clouds, other pictures feature it at different angles flashing its freshly painted wings. In the same way parents are usually proud of their children, but in this case their child is still immature.

A long-range aircraft of the 21st century with its design name being widely known even abroad will soar up into the sky for the first time only next year. Numerous tests, improvements and certifications are still ahead. Many companies, both Russian and foreign ones often closely cooperating with each other, are involved in the development of MS–21, for example, designing avionics or aviation electronics.

Sukhoi Comfortably Off

Every Soviet design bureau had avionics divisions that worked with specialized institutes and enterprises. However, in the 1990s the falling number of orders and loss of the bulk of human resources made avionics a rarity in Russia. The project envisaging the development of Il-96 implemented by the Ilyushin Design Bureau in cooperation with the American Rockwell Collins failed to go into production. Projects intended for military air forces focused mainly on exports and were to be realized within a short timeframe. Practically no new achievements were made that is why technological base had to be expanded based on the foreign experience. Sukhoi Superjet 100 has become the starting point for the new stage of the Russian aircraft construction industry. Engineers did not only have to make a jet that could fly within the country, they had to offer an aircraft that could enter the external market and thus bring the streak of bad luck suffered by the Russian civil aviation to an end. "At that time the bureau applied technologies developed in the Soviet Union, which made it impossible to certify airplanes abroad", Viktor Polyakov, Director General of the UAC Integration Center, says. "After foreign companies were invited we were able to reach the modern European technological level and obtain both IAC AR and EASA certificates".

The head of the Integration Center assures that SSJ 100 is a Russian airliner to more than 50 per cent. Our companies have made a great input into the development of its software. Sukhoi specialists designed software based on the advanced European technologies and tested it on real onboard equipment supplied by the French Thales. After that the new product was sent back to Thales which integrated Russian know-how in its avionics complex and then passed it over to Sukhoi Civil Aircraft for verification and flight tests. Aircraft manufacturers have generally achieved their goal: the regional airliner can fly both within Russia, and abroad and it has potential foreign clients.

Systems Thinking

Modern avionics has made a great step forward by increasing the functionality of automatic equipment that performs over a hundred functions today and is capable of replacing people. The Tu–154 crew consisted of four people, while the cockpit crew of modern airliners has been halved due to the mathematics that has taken up some of the functions.

Viktor Polyakov, Director General of the UAC Integration Center

The system computes all the required parameters that were previously estimated using a navigation ruler. Besides, mathematics helps to control general aircraft equipment that in earlier years was monitored by the flight engineer.

"Avionics shall become modular, desk-size and multifunctional", Viktor Polyakov explains. "The level of service is considerably higher today, as, for example, in case of the automatic aircraft landing that is controlled by the pilot. A short while ago no landing was allowed if pilots could not see the runway within their weather minimum. They had to go around or fly to an alternate airport. Today, mathematics can guide the airplane until landing. All that one could only dream of before – every possible mode and estimate, as well as vertical navigation – are integrated even in regional airliners".

According to Viktor Polyakov, European air routes resemble an ant-hill in the air and airports are the most complicated architectural and infrastructural facilities. The growing number of flights will narrow the airways. The previously maintained nominal flight level of 300 meters can be reduced to 100 meters in future. All this will call for the need to restrict requirements for sensors and estimates. Whether airplanes will be able to fly without people and become completely robotized, Viktor Polyakov, an aviation engineer with sound work

experience who took part in the development and testing of the military Su–27, Su–34, Su–30, Su–35 and T–50, could not say explicitly having given examples from the past practice. Around 15 or 20 years ago designers were assigned to copy mathematical data in an automated mode from an old computer to a new one. Roughly speaking, a mathematical model had to be carried over to another computing platform. So it was, but then when designers started testing the equipment, an error occurred. They decided to find out the cause of the error and realized that one of the employees had manually changed one of the parameters in an attempt to improve the system, after which the programs started operating inconsistently. After they removed his know-how the system was fixed automatically. In that case manual intervention was unwelcome.

"Some years ago a power system failure was registered in a Tu–154 during the flight. If the operation had been fully automated the computer would have simply "given up" and refused to control the aircraft, while in that case the crew found an abandoned airfield and managed to land the plane", the head of the UAC Integration Center says. "Autopilots are able to fulfill clearly preset processes ideally. But in emergency situations autopilots can become unpredictable. In this case, the crew's presence on board saved the situation".

Long-Range Airliner

A set of on-board equipment for MS–21 is developed by a company that belongs to the United Aircraft Corporation headed by Viktor Polyakov. If for SSJ 100 Thales was the primary contractor, for MS-21 all the key functions are performed and avionics is supplied by the UAC-Integrated Center. It cooperates with approximately ten other Russian companies.

"Experience gained when working with Russian companies allows addressing a whole range of tasks involving Russian specialists. Thus, for example, the core of the MS–21 avionics is based entirely on the domestic functional software, while the streamlining and verification of software and on-board equipment set are subject to developmental testing. It is development testing that allows to confirm the compliance of on-board equipment and its component parts with customer requirements, as well as international and Russian standards before it is installed on board the plane", Alexey Gerasimov, chief designer of on-board equipment at the UAC-Integration Center says.

"We now have test benches for software development, facilities for the integration and fine-tuning of software and the whole equipment. These are used to develop and test equipment versions, as well as for assembly and testing of interface and compatibility", Alexey Gerasimov explains the structure of work. "Then, all the components are supplied to Irkut Corporation which has its own test benches: the full-scale "electronic bird" test bench and "iron bird". After the equipment is tested on test benches it is installed in an aircraft and can be subject to flight tests. It is a "ticket" to the sky".

It is All about the People

The staff of the UAC Integration Center consists of young, promising and at the same time rather experienced specialists. The average age is 38 years with the number of employees under 50 accounting for 78%. The staff servicing test benches of the Integration Center is made up of former students of Moscow Aviation Institute, Moscow Engineering Physics Institute and Moscow State Technical University. The management trusts them. "Today many technologies are close and clear to young people, that is why employees' qualification is acceptable. Surely, they also need specific knowledge that is difficult to acquire at institutes and our employees are trained under special programs", Viktor Polyakov says. While working on the SSJ 100 project specialists accomplished training in France and Thales instructors who were around and consulted the Center's employees throughout the year helped them in their work. To prepare for work on the MS–21 project engineers of the Center improved their skills in Europe and the USA. Valeria Kruglik is one of the youngest specialists in the Center. In 2015, she graduated from Moscow Aviation Institute and became a specialist in robotic and intelligent systems. As a MAI student Valeria did an internship with the UAC Integration Center and is today involved in the integration and adjustment of interoperability of control system components' at the test-bench.

"After I graduated from MAI I wanted to apply my knowledge in practice. During the interview with the Integration Center I was told that it was working on MS–21, I was shown control equipment and burned with eagerness to work there. It is very interesting to work at test benches and we understand what a responsible and important role we have", Valeria says.

One of the Center's most respectable employees is Mikhail Neymark. He stood at the origins of the Russian aviation. The 76-year-old easily beats young specialists holding respective titles in chess. Mikhail Semenovich builds an equipment failure tree, considers all possible equipment operation options to ensure fail-safe performance, which in its turn is tested at the bench. They serve to simulate different emergency situations, as, for example, the consequences of both engines' failure. This situation is hardly possible to simulate in the air, while such instruments make it possible to test operation at early stages before the plane takes off. "Every human life is invaluable, that is why all indicators on a plane shall be taken into account to the maximum extent in the course of its development", Viktor Polyakov concluded.

Sukhoi Superjet 100
is a new generation
of regional aircraft.
Over 100 jets
have been produced by now.

MS–21
is a family of passenger short and
medium-haul liners with the
widest body in its class
of 4.06 m

Impediments to Flying

The so-called general aviation or civil aviation that is not used for commercial transportation and aerial application is underdeveloped in Russia despite the vastness of its territory and poor accessibility of some of its regions. Does Russia need it and what hampers its development?

Problems of the general aviation (GA) should be discussed beginning with the question, whether it exists in our country, to what extent and who owns it. Vladimir Tyurin, Head of the Interregional Public Organization of Pilots and Civil Aircraft Owners, answers these questions in a comparative context. Experts claim the number of aircraft in Russia usually correlates in the best possible way with the number of welthy individuals, i.e. those who can afford buying an aircraft or a helicopter.

“From the viewpoint of this indicator, our country is close to Brazil. However, it is a well-known fact that the number of general aviation planes and helicopters operated in Brazil reaches around 19 thousand.
In Russia, it is estimated at 3 – 5 thousand aircraft including ultra-light models. This means that with the same possibilities our figures are approximately four times lower than those registered in Brazil”, Tyurin explains. This simple reasoning enables to claim that Russia’s general aviation is rather underdeveloped. Besides, according to data recently voiced by Andrey

General aviation is a remarkable element of Russia’s unified transport infrastructure and with the correct approach first of all on the part of constituent entities’ heads can have a significant impact on regional development of many interesting and important projects.
Our major goals are improvement of mechanisms of government regulation and support of general aviation development, as well as ensuring coordinated measures to be taken by the federal executive and local authorities to elaborate and implement core areas of state policy in this field.

Maxim Sokolov,
Minister of Transport of the Russian Federation

Vorobyov, Governor of the Moscow Region, half of airplanes and helicopters of the general aviation are concentrated around Moscow.

“I was very pleased to hear that around 55 per cent of all Russian helicopters are based and operated in the Moscow Region”, the governor pointed out. The figures that head of the Moscow Region considers to be pleasant in fact prove that people living in remote and not easily accessible areas of Russia are deprived of the possibility to use general aviation as an alternative means of transport. For example, no one will be surprised to see an Alaskan flying an airplane or helicopter for regular shopping in the USA, where private pilots own 200 thousand aircraft. The US government aware of the absence of roads supports the development of aviation in this region by subsidizing the construction of airfields and providing incentives to aircraft owners.

The Russian authorities are more concerned about safety than development. At a recent meeting of the Presidential Commission for the Development of General Aviation its Chairman Igor Levitin announced the following figures: “23 people died in 11 flight accidents only over the last ten months of 2015”. He also urged to take necessary measures to enhance flight safety. “It seems to lie in the nature of a Russian man: unless strict regulations, rules and stringent control are introduced, flights will remain dangerous”, the Moscow Region governor agreed with Levitin.

In reality, nobody knows whether general aviation in Russia is safe. “We can only make assumptions. Like any means of transport an aircraft is a high-risk entity, and safety is definitely an area of concern. General aviation in Russia claims around 25–30 lives a year. But we have only absolute statistics of casualties and flight accidents without any relative statistics data. The Federal Air Transport Agency neither discloses aircraft register data, nor gathers or publishes figures of general aviation flight hours. Thus, for example, if there have been twice as many flights, but the number of accidents has grown by a third, has flight safety improved or deteriorated?”

At the same time, the state exerts greater regulatory pressure on aircraft owners pretending to be taking care of safety. According to air industry experts, this is exactly what hampers the development of general aviation. "Aircraft registration procedure prescribed by the Russian Civil Code is similar to that of real property registration. Besides, one should obtain an airworthiness certificate which is an equivalent of state technical inspection certificate issued for automobiles. Whereas in case of automobiles this is done by market players, including private companies, control of airworthiness is undertaken by the Federal Air Transport Agency acting on behalf of the state with abominable level of services", the head of the public organization noted.

Should a common person decide to buy a helicopter, he or she will face an exciting bureaucratic procedure from the preparation of an extensive package of documents, paying a visit to Moscow to have them issued to the subsequent correction of errors that are inevitable in the absence of professional help.

There is a negligible number of aviation training centers for pilots in Russia today. Many certificates have been revoked under the pretext of poor flight safety and training quality. However, there is an opinion that the problem lies in the conflict of interests of the Federal Air Transport Agency on the one hand supervising subordinate state educational institutions and allocating the so-called "extra-budgetary funds" for them and specifically "fees for flying across the territory" from foreign air carriers, and on the other hand certifying private training centers.

Vladimir Tyurin,
Head of the Interregional Public Organization of Pilots and Civil Aircraft Owners

By contrast, in Western countries it is enough to fill in the form and e-mail it with the slip confirming payment of a small registration fee to the respective agency. That is why, airmen often answer the question as to how the state can contribute to the development of the general aviation saying: "don't interfere!"

"Regulatory pressure should be immediately relieved. Some measures required from the state are obviously excessive. I understand that in some cases when there are difficult financial schemes, as for example leasing, government protection is important. But in simple situations the state should not interfere in the process. Excessive measures, laws adopted emotionally without an in-depth analysis of possible consequences for the industry, as for example after flight accidents, often create huge obstacles to development and trigger investments in compliance. General aviation becomes ineffective in terms of cost", Vladimir Tyurin points out.

The expert reminds of an old plea of representatives of the air industry to the government authorities to lower the duty on imports of purchased aircraft. Today, it constitutes around 40 per cent (duty plus VAT) of the purchasing price. As a result, only very old or very cheap aircraft are imported, while there is practically no alternative offered by domestic aircraft building industry. Meanwhile, the off-mainstream commercial aviation could solve a number of transport accessibility problems if it were more advanced. Surely, development of aviation should run along with the infrastructure upgrade. And this is just the case when the state has to make its input by building airfields and runways without leaving this to aircraft owners. Noone asks automobile owners to construct roads using their own resources.

Vladimir Tyurin describes the bright future of the general aviation as follows: "It would be good if the Russian case could be compared to the Brazilian one with around 15 thousand aircraft gliding through the Russian sky. This is certainly a utopia as the outcome of the current crisis is still unclear. However, it would be wonderful to get 200-400 new aircraft with airfields and pilots every year".

United Fund

Alexey Komissarov, Director of the Industry Development Fund of the Ministry of Industry and Trade of the Russian Federation explained the Strategy Journal why it is so important to support new hardware designers and regional startups, and told about the principles of regional projects financing.

Industry Development Fund started to function only this year. Was the launch of such a fund dictated only by the need to phase out imports or there were other reasons? To what extent is this development institute sought after?

The fund was established at the initiative of the Ministry of Industry and Trade in order to make medium-term financing of modernization and technical re-equipment projects available for Russian industry. High interest rates on credits and restrictions of banking system on crediting research and development work and advance developments implementation did not allow Russian entities to execute the medium-term modernization programs in full.

And regarding the demand, numbers speak louder than words: since the beginning of the year the Fund has received 1,282 applications for the amount of 449 billion rubles, taking into account that the Fund's volume is 20 billion rubles. That proves that Denis Manturov's decision was right.

What measures, apart from financing, are being taken today to support non-energy export? Are there any examples of factories successfully exporting their products? What are the nearest prospects for this field? What does Russian produce lack in comparison with foreign goods?

There are federal and regional structures in our country which are aimed to support exporters. When the Fund selects projects, their export orientation is considered as an additional advantage.

For example, Interskol received a loan to ensure localization of manufacturing of the new generation of professional electric tools (24 types) in Russia. The launch of a new product line will make it possible to replace production of European, Japanese, US companies and reach 15% of imports phase-out in the Russian market of power tools and equipment for construction industry and housing services and utilities. About 70% of all goods will be sold in Russia; the rest will be sold at CIS and EU markets.

With the loan Doncarb Graphite will be able to manufacture graphite which is more solid and lighter than metal and much-needed in the up-to-date industry. As a result, we can successfully solve a phase-out problem, and Russia will become one of a little number of countries which can manufacture material at such a level. Upon reaching the target production volume the Company is planning to export up to 60% of production. After that the Development Fund will allow Baikal Electronics Company to enter mass production of Baikal-T1 processor.

Products are planned to be sold to Russian and foreign electronics manufacturers focused on the Russian and BRICS markets. The Company is planning to supply about 5 million processors by 2020. The Fund's position is very simple – Russian products should be competitive on the global scale. This is the only way to phase out imports.

What is the Funds' application procedure? What manufacturers need the Fund's support at most? What applications are declined and why?

The majority of applications are related to machine industry, but in general applications are distributed equally. At least industries essential for imports phase-out are presented in good supply: machine industry (18 projects, 6.58 billion rubles), pharmaceutical industry (13 projects, 3.9 billion rubles), electrical equipment (6 projects, 1.98 billion rubles), chemical industry (5 projects, 1.84 billion rubles), consumer goods industry (4 projects, 1.51 billion rubles).

The projects' aim is not only to phase out imported products at Russian markets, but enter foreign markets with competitive products. The planned consolidated volume of output should exceed 530.4 billion rubles by 2020.

We do not support military goods manufacturers, real property construction and purchase, research and development works that are far from manufacturing application. We give green light to new equipment designers, unique manufacturers, engineering companies, medicine producers and those who localize business.

What regions are most active in their attempts to get the Fund's loans?

The biggest number of applications comes from the Moscow and Sverdlovsk Regions, Tatarstan and St. Petersburg. I believe that is a result of highly developed industrial sectors in those regions. The higher the industry's share in the Region's economic structure

> "Regarding the demand, numbers speak louder than words: since the beginning of the year the Fund has received 1,282 applications for the amount of 449 billion rubles"

is, the bigger the number of applications we receive from them is. As of today, 50 agreements have been executed with administration heads. As a result of such efforts, the Fund became recognizable, applications became better, and the most important aspect is that regional authorities now stand bail for regional entities with more enthusiasm. Before that even interesting projects could be declined because of inability to provide good guarantee and support.

In your opinion, is it possible to phase out all imported industrial products? Have we not placed ourselves in a difficult situation trying to renovate the industry fundamentally in the context of sanctions and limited time?

It is impossible and there is no need to phase out imports completely. According to the Ministry of Industry and Trade, several trillion rubles will be needed to execute all of the phase-out plans (which do not stipulate total import replacement). Surely, I am talking about both state and private investments.

The Fund's work concept is to cause a ripple effect – thanks to our loan which covers 30-70% of expenditures on project implementation (depending on the program) we can attract other funds to the real sector of economy. Then entities will need suppliers when starting up production and reaching design capacity. All of this is building so-called chains which together make an economic effect. The Development Institute should comprehensively solve such problems.

Looking to the future, could you specify numbers and indicators which the Fund is aiming to reach ensuring financial support of the projects? How much has been spent this year? How much is planned to be spent next year?

The definition "spent" does not totally match our concept. All the loans are repayable and are given at an interest rate, require guarantee, co-financing and serious expertise. This year, the total Fund's volume that amounted to 20 billion rubles was invested in almost 60 projects. Some enterprises which received grants at the beginning of the year are already building production lines and getting ready for a launch.

As planned, more than 8,800 workplaces will be created, and the output will exceed 530 billion rubles by 2020.

The planned tax revenues from projects execution will amount to 40 billion rubles, i.e. will be twice as big as the repayable funds invested by the Fund.

We are continuing to analyze applications, we have about several hundreds remained, and waiting for a decision on additional capitalization. State Duma deputies and governors repeatedly told that the Fund is needed, and we can judge about manufacturers' opinions by the number of applications.

Opening the State Council presidium meeting on imports phase-out Russian President Vladimir Putin said that private businesses would invest about 140 billion rubles into joint projects with the Industry Development Fund. Could you please specify what companies will be engaged in this initiative and what these funds will be used for?

After the State Council meeting followed the Expert Council meeting where it was decided to channel subsidies to several other projects as well. So, the specified amount has even increased and some investments have been already made. As long as we provide loans on terms of co-financing, the Fund's profit should be assessed as a whole and not only by the loan amount.

The total volume of private investments into the national economy on the approved projects exceeds the total amount of loans seven times and comes to 142 billion rubles. It is impossible to name all the sixty projects and tell in this article about all companies which are implementing them.

But I can give you several examples: Ural Diesel Engine Plant will create national high-speed diesel engines for machine industry, shipping industry and Small Energy; Pharmasyntez will launch manufacturing of pharmaceutical substances for tuberculosis and cancer drugs; JSC Voronezhselmash will manufacture advanced Russian seed treatment equipment which has not been upgraded since the Soviet period; Kostroma Plant of Automotive Components is a Russian manufacturer of cylinders and pistons of Euro-4 and Euro-5 standards for automotive industry leaders; Protex will manufacture high quality fleece fabric that is a completely new product for Russia currently produced only abroad; Sterlitamak Machine-Tool Enterprise (Bashkortostan) will launch production of national ergonomic cases for NC machine tools.

"The Fund's position is very simple – Russian products should be competitive on the global scale. This is the only way to phase out imports"

Staying Afloat

This year Russian industry faces a great pressure both in political and economic areas. The major industrial sectors are traditionally less flexible, but in the hopeless situation they find a way to stay afloat.
One of such sectors is shipbuilding. In this article we listed five typical problems of this field and methods of their resolution.

The Sanctions Effect

In 2014, nineteen civil ships with the total deadweight of 608.5 thousand tons were put into operation in Russia. This indicator is 27% less than the last year's one. Ministry for Industry and Trade of the Russian Federation acknowledges that the industry faces serious challenges which should be addressed within limited time. It has been a year and a half since the imposition of sanctions, but a significant part of products required for Russian shipyards is still being manufactured abroad.

Imports phase-out was not very successful, and experts believe that the reason lies in the inflexible government machine. But there is good news. As representatives of the United Shipbuilding Corporation (USC) told the Strategy Journal, breakthrough projects could be implemented by the USC's own forces and in cooperation with foreign partners who continue working with Russia despite all the sanctions.

"The Corporation has enough talented design engineers qualified to create innovative projects. For example, the USC is already implementing the project of constructing the world's first ice breaker ship driven by LNG by its own forces. Besides, we should not forget about the Sevmash's platform "Prirazlomnaya", the only one which makes it possible to produce oil in the Russian Arctic shelf area", USC noted and mentioned that in the civil sector it is more important to select an area for technological cooperation and localize manufacturing in the future, than phase out imports totally.

Russia signed a contract with IHC Merwede, the largest manufacturer of dredging equipment in the Netherlands; this contract will lay the foundation of the possible local content of this company's equipment. While Maprom, the Dutch manufacturer of propeller shafts for ships of different classes, expresses its willingness to launch production in the Special Economic Zone "Lotos".

Localization is More Important

The USC believes that instruments for stimulating foreign manufacturers to localize their production in Russia can be regulation of such localization and creating a multipurpose list of makers (list of equipment and suppliers agreed upon with the major shipowners), elaboration of leasing packages, issue of state guarantees for constructing ships and marine facilities for offshore operation, as well as state financing of development and creating pilot models.

Serial Production of Ships

"Russian shipbuilding yards are unable to form attractive value-for-money offers in a number of key segments of civil shipbuilding. The reason lies in the low level of serial production," – Mikhail Burmistrov, Head of INFOline-Analitycs, said. The USC acknowledges that serial production is essential because it will significantly decrease labor costs and make projects cheaper.
The Shipbuilding Development Program 2030 is being implemented in order to ensure this aspect of production and cooperation between all market players. Another goal-setting instrument of planning is a Federal Target Program for the 'Development of Military-Industrial Complex of the Russian Federation by 2020'. Furthermore, similar programs are being developed on the regional level. For example, Krylov State Research Centre will prepare such document on the order of the Leningrad Region, according to the USC. The share of defense order is continuing to increase. In value terms, naval construction at the end of nine month of 2015 ensured almost the total order volume of the Russian shipyards; its share exceeded 90% (60 billion rubles).

The average age of the Russian river fleet is **more than 33 years,** within the next 15 years **300 river vessels** need to be renewed; while the total number of river-sea vessels need to be renewed is about **450-500 units**

Text: Ekaterina Pronina

Demand for Renovation

Experts are almost screaming about an urgent need to construct a high-tech fleet of new generation. But now Russia is not able to manufacture all types of vessels. For example, we cannot manufacture long-liners in Russia; meanwhile this vessel is one of the most popular fishing boats.

Modernization and innovative development are very expensive processes. The USC acknowledges that it's not easy, like any other high-tech process, but real. Innovation and research activity is one of the shipbuilding focus areas. The total volume of research and development work performed by the USC accounted for 2.4 billion rubles.

The USC entities obtained 40 patents, what is 2.5 times more than expected. In order to create modern patterns of ancillary equipment for ships and vessels and their component parts the USC executes more than 400 development works.

The USC and its contractors create new patterns of power plants and diesel generators, inverters, pumps, integrated systems of communication, underwater acoustics, navigation, etc.

In order to make vessels better and safer, the USC is aiming to maintain the continuity of engineering technical experts in the field of design and construction.

In the global shipbuilding market Russia is quite a remarkable investor. In 2014, Russian investments amounted to 13% of the European volume of investments into shipbuilding and 4.5% of global volume.

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Global Portfolio

Problems with exporting Russian shipbuilding products are different in various production segments. Shipbuilders are concerned about the global trends and the global overproduction crisis caused by a big amount of orders for cargo vessels which did not meet the actual needs of shipping. The forecasts are disappointing.

According to Clarkson Research Consulting Company, now we are facing the biggest shipbuilding market decline since 2004. The next two or three years will be disastrous even for industrial leaders such as China and South Korea.

Nevertheless, Russian military products and tankers are in substantial demand. In addition to standard supply of naval facilities, the USC's export package includes maintenance services and technical assistance in performing constructing operations on the customer's shipyards, as well as their opportunities for scientific and technological cooperation with leading engineering companies.

As for civil shipbuilding, the USC has considerable experience and competitive advantages in constructing ice-class and river-sea vessels. In particular, this refers to marine facilities for work in the Arctic shelf and the Northern Sea Route. There are joint plans and programs with Argentina on development and research in the Arctic and Antarctic.

As part of this project, the USC partners have expressed their interest in the icebreakers and ice channeling vessels. Finnish shipyard Arctech Helsinki Shipyard, which belongs to the USC, is currently building the world's first LNG-powered icebreaker for the Finnish Transport Agency. A lot of vessels for foreign customers are being built at the Krasnoye Sormovo plant in Nizhny Novgorod.

In 2009-2013, the plant fulfilled contracts for six tankers RST22 and 19900 for the State Service of Maritime and River Transport of Turkmenistan. And now we are waiting for the results of consideration of the same customer's application for supply of one oil tanker and two Anchor Handling Tug Supply (AHTS) vessels for servicing offshore drilling platforms.

Caspian Energy has produced a crane vessel and fixed platform Zhdanov-A for the UAE Dragon Oil Company and is building tugs for Kazakh customers.

We produce high-reliable naval facilities and military equipment notable for its operational effectiveness, ease of maintenance and operation economy. We export our military products to 20 countries of the world.

Aleksey Romanov,
President of AO USC

Are the Shipyards Full?

According to INFOline- Analytics rating, the number of civil and naval vessels built in Russian shipyards decreased by 20% (down to 98 units) during the nine months of 2015 in comparison with the same period of the last year. Meanwhile, the total tonnage of all vessels handed over decreased almost 2.8 times, from 327 thousand tons to 117.5 thousand tons. In monetary terms, the market fell by 24%, down to 65.8 billion rubles.

Thus, after the rapid growth in the amount of orders completed in 2012-2014, Russian shipbuilding demonstrates a negative trend for the second consecutive year (in 2014 the number of the vessels built fell by 41% to 177 units). The USC does not deny such a decline, but assures that the company has enough orders.

According to the USC representatives, the growing volume of Defense Procurement keeps the USC entities busy, and in particular, the major manufacturers of power plants, weapons, and basic general ship systems. In addition, the USC is implementing a challenging program of shipyards modernization.

Sredne-Nevskiy Shipyard is under reconstruction, technical re-equipping of the existing fiberglass production is in progress as well as facilities of metal shipbuilding and launching appliances. Production lines for processing rolled metal products and plasma cutting equipment are being installed at the Lotos shipyard. Modernization of launching appliances and improvement of production processes is being performed at the Khabarovsk plant. The most modern shipbuilding complex with dry dock and covered berth is being created at the “Severnaya Verf” (Northern Shipbuilding Yard).

This year, seven new tankers, chemical and bulk carriers are planned to be built at the USC shipyards. The Sredne-Nevskiy Shipyard has delivered a series of tugs to the customer.

The Vyborg and Baltic Shipyards have orders for civil vessels till 2018. Seventeen icebreakers and ice-class vessels are in operation or being prepared for laying down. In the foreseeable future oil and gas companies will need a whole range of icebreakers, ships service of half-ice class, tugs, supply vessels, rescue and diving vessels.

In 2015, the USC shipyards have floated out and delivered to the customer 11 ships and marine facilities, and plan to deliver another seventeen objects by the end of the year. Thus, the USC states/claims that very important steps have been made to normalize the situation and improve the whole industry.

3,284 passenger vessels were built from 1903 to 2013. Only 31 passenger vessels were built from 2010 to 2013

Close Cooperation

Analysts claim the 2015 crisis is considerably milder than the previous one. Macroeconomic performance curve more often remains positive. According to the Center for Macroeconomic Analysis and Short-Term Forecasting, output decline is several times lower this year than that registered in 2008: 2.5% compared to 9%. At that time, the situation in the industrial sector forced the government to take prompt measures to find tools that would prevent the final downfall in the industry and death of the Russian business. The nation's leaders focused on the cluster policy as the key solution.

There was no need to look for evidence of efficiency and applicability of such a policy: Development of the Silicon Valley was in full swing in the USA, while the input made by companies working in clusters to the country's GDP exceeded 50%.

France, Italy and even separate islands in Australia developed their industry rapidly relying on the internal competition. Later on, a section dedicated to clusters appeared in the Strategy for Innovative Development of the Russian Federation until 2020. The territorial principle of consolidation of manufacturing facilities was welcomed by the regions with great enthusiasm. Industrial associations that only vaguely resembled clusters had already operated in many constituent entities of the

The program envisaging subsidies for pilot innovative clusters **was launched in 2012.** Federal subsidies are supplemented by regional with their size depending on the level **of the region's fiscal capacity**

Russian Federation. Often their distinction from modern clusters was that companies were unable to compete with each other in historically formed integrations constantly progressing and improving product quality. They depended on each other. Four large clusters operate in Mordovia. One of them has been dealing with sustainable lighting technologies and intellectual systems of lighting control for over 60 years. It was actually formed in 1964 with the establishment of "Svetotekhnika" Saransk Manufacturing Association and consists of fourteen companies. Today, the cluster includes the leading production, scientific and infrastructural companies with production volumes equivalent to around 7 billion rubles and employing over a thousand specialists. The cluster is formed on the basis of the Research Institute of Light Sources named after A.N. Lodygin that is the leading institute specializing in lights and lighting devices engineering. It serves the needs of the Defense Ministry and specifically aviation, space and military shipbuilding.

Text: Galina Fyodorova

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Today, one in three sources of light in the Russian Federation is produced by the companies operating within this cluster based in Mordovia.

Cluster Diversity

According to the Ministry of Industry and Trade of the Russian Federation, there are over 59 industrial clusters, 26 pilot innovative territorial clusters, as well as cluster development centers operating and being set up in the country. Chemical industry, microelectronics and tool engineering, as well as information technologies and pharmaceutical industries are the most popular sectors for cluster formation in terms of types of economic activity. Attempts to create a full copy of the innovative Silicon Valley in Russia failed. Specialists claim that the Academic Town in Novosibirsk probably closely resembles it, but is still far behind in terms of volumes and commercial appeal. The innovative cluster of information and biopharmaceutical technologies has won the tender of the Ministry of Economic Development. Over the past three years the region has received state subsidies from the federal budget for cluster development. In 2015, their amount totaled 103 million rubles, while the total figure for three years reached 522 million rubles. The cluster brings together 142 companies. The second largest entity in the Novosibirsk Region is the medical and technological cluster established on the basis of a public-private partnership model. Its participants have reached the annual profit level of 700 million rubles, investments in the project amounted to over 1.8 billion rubles. The region plans to develop a consortium of enterprises working with new materials and developing among other things nano-ceramics and carbon nanotube technologies.

In 2013, 13 clusters received **1.3 billion rubles** in subsidies, while in 2014, **2.5 billion rubles** were distributed among **25 clusters**

The Ulyanovsk Region served as the basis for the formation of an aviation cluster, its traditional sector. Its basic elements are aircraft engineering, air carriage and airports, technical maintenance and repair of aircraft, personnel training and research. The rating of the Russian Cluster Observatory refers it to highly developed clusters. Dimitrovgrad-based Nuclear Innovation Cluster belongs to mid-level clusters. The Ulyanovsk Region became the only region in the country housing both high and mid-level clusters. The constituent entity's administration plans to make them the driving force of the region's integrated development. The core of the machine-building cluster in the Irkutsk Region is the Irkutsk Aviation Plant. The cluster incorporates an industrial park comprising production facilities of small and mid-sized businesses that can manufacture certified products in the aircraft production chain. Besides, the region has initiated creation of a pharmaceutical cluster.

Another machine-building consortium is located in Mordovia. It is the only complex in Russia producing a wide range of rail cars. Manufacturing enterprises produce goods equivalent to over 15 billion rubles and employ over 6 thousand people. Besides, the republic has a cluster manufacturing cabling and wiring products with their share in the Russian market being 8 per cent and for some items even 100 per cent. A cheese dairy cluster is also being developed. Enterprises use equipment that is unparalleled in Russia. The administration of the Kaluga Region claims that the automobile and auto parts manufacturing cluster contributes to the reduction in producers' dependence on foreign supplies and currency fluctuations. Localization of popular car makes constitutes 60 per cent here.

The regional pharmaceuticals, biotechnologies and biomedicine cluster accounts for around 3 per cent of the Russian pharmaceutical market. The companies within the cluster seek to gain 10 per cent of the market by 2020. The region also has the ICT, aviation technologies, composite materials, transport, logistics, agri-food, machine-building and construction materials clusters. The Perm Territory is getting ready for the creation of an innovative pharmaceutical cluster on the premises of CJSC Medisorb. There is a fully developed technology of drugs, generics and substances production. According to the regional administration, output volumes in 2014 amounted to 624 million rubles, while in 2015 this figure reached 680 million rubles.

Besides, the constituent entity invests heavily in the optoelectronics industry for instrument engineering. Thus, in 2014, companies within the photonics cluster sold products based on optical fiber for the total amount of 390 million rubles, and plan to earn 690 million rubles in 2015, which is by 80 per cent more. The most powerful cluster in the territory is Novy Zvyozdny Technopolis building rocket engines and involved in the famous project for the creation of MS-21. Fully Russian-produced engines PD–14 that are currently flight-tested and will then be installed in a long-range aircraft are manufactured here.

Mercenary Purposes

Constituent entities of the Russian Federation have pursued the cluster policy since the early 2000s. According to heads of the region's administration, this instrument of industrial production development proved to be effective.

"Practice has shown that efficient and dynamic development of industrial production is possible if it is consolidated. Our regional economy is diversified and this proved by the positive results of 2014", Governor of the Kaluga Region Anatoly Artamonov says. "Should one industry experience temporary difficulties, the balance of the budget and therefore social stability in the region are ensured due to the growth in other spheres".

Today, the share of regional cluster enterprises and entities in the structure of the GRP of the Kaluga Region amounts to over 50 per cent.

The Kama Region was one of the first in Russia to adopt the internal law on industrial policy and sign investment contracts with three industrial enterprises. "It is a new subject for the whole country, one of the modern and apparently effective instruments of the state industrial policy. The total volume of investments under all the three contracts reaches around 40 billion rubles.

This means 1,500 new workplaces will appear in the region in the next few years", Viktor Basargin, Governor of the Perm Territory, says.

As announced by the Government of the Republic of Mordovia, over five years infrastructural projects raised over a billion rubles as subsidies from the federal budget, 750 million rubles were channeled from the republican budget and over 10 billion rubles came from extrabudgetary sources. It is still impossible to evaluate the economic effect of the cluster policy in Russia. Many associations are currently being formed. "We can refer only to the reports provided by companies supplying information to the specialized organization", Deputy Head of the Administration of the Novosibirsk Region, Minister of Economic Development of the Novosibirsk Region Olga Molchanova, explained. "As at the end of 2014 the earnings of the companies within the Innovative Cluster of Information and Biopharmaceutical Technologies amounted to 8.864 billion rubles. Equity investments for 9 months of 2015 (based on data supplied by the Territorial Office of the National Statistics Service) (excluding small business entities) totaled 747.4 million rubles".

According to the Government of the Irkutsk Region, the machine-building sector accounts for 3 per cent of the GRP and 1 per cent of the total volume of investments. Products sold by the machine-building cluster in 2014 totaled 30 billion rubles. The annual turnover of participants of the aviation cluster, the most successful one in the Ulyanovsk Region, reaches 49.4 billion rubles. There are plans to invest around 5 billion rubles in it by 2018.

According to the government of this region, as at the end of 2014, index of production of machines and equipment in the machine-building cluster amounted to 136.3 per cent. Production of machine tools alone over 10 months of 2015 grew in physical terms 2.1 times. Overall industrial output accounts for 30 per cent of the GRP. The three major industrial associations represent 10 per cent of the GRP.

Heads of the regions and experts agree that implementation of the cluster policy mostly satisfies regional needs resulting in the development of industries and scientific work followed by the educational and social spheres. The crisis that forces constituent entities to begin the new year with a great budget deficit causes concern. However, the government promised to render assistance to innovative clusters again. In 2016, the Ministry of Industry and Trade is going to stimulate industrial clusters with federal subsidies. Candidates are already being selected, while first results will become known as early as in the first quarter of 2016.

5 Illusions about the Year's Key Trends

A little more than a year ago, Vladimir Putin set a strategic course for imports phase-out. Whether this trend turned out to be good or evil for Russian manufacturers and consumers can be cleared up by dispelling or confirming myths that formed around it.

Myth No. 1. Imports Phase-Out Does not Work

There is no straightforward answer to the question whether imports phase-out works or not. The share of imports in the Russian economics has been growing considerably since the early 2000s, both in end products and components.

According to the Ministry of Economic Development, this share reached around 80 per cent in some sectors by 2013. Moody's, an international credit rating agency, published its Global Macro Outlook in August 2015, in which it points to the lack of clear evidence that imports phase-out stimulates internal production.

However, taking into account difference in the duration of economic processes, attention should be paid to those subject to fastest change. Thus, for example, agribusiness demonstrates significant advances.

To substitute for agricultural products the government backed up 460 investment projects totaling 265 billion rubles. As a result, the output of dairy products grew by 26 per cent, meat products – by 5 per cent and fish – by 6 per cent. The Ministry of Agriculture expects the production of sugar and sunflower oil to grow this year as well.

The Russian Ministry of Economic Development has registered positive trends in some segments of chemical and consumer goods industry. The lumber industry and metallurgy also demonstrate certain upturn in some niches.

All this calls for a consistent policy clearly identifying scientific priorities and niches in which Russian products can be competitive. Viability of this work is already demonstrated by the companies within Rostec Corporation.

If we look at the overall economic structure clear results of the imports phase-out strategy are still not very clear. The same is true if we split products in terms of investment and domestic demand. It is a long-term process and associated with changes in the structure of economics. In such a short period of time no serious changes can be seen. However, for example, the index of actual volume of investments in chemical production in the first six months of 2015 amounted to 123.1%. Thus, investment activity grows in separate industries.

Alexander Maslennikov,
Director of the Department for the Development of Economic Sectors of the Russian Ministry of Economic Development

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Myth No. 2 Economics Will Grow Immediately

Diversification and budget independence of the mineral commodity market can actually contribute to the recovery of the Russian economy.

This creates a prospect of a substantial domestic production growth. But experts claim efficient growth requires a much wider range of measures.

"The imports phase-out strategy alone cannot be an effective model of development of the Russian economy. This should be only one of the elements of the general strategy that will include both the support of exports and mutually beneficial integration in the global value chains. One should avoid excessive isolation of the Russian economy under the motto of imports phase-out", Moisey Furshchik, Managing Partner at FOC, says.

Director for Strategic Marketing at GS Group Andrey Bezrukov lists some measures supplementing the phase-out to ensure indices' growth. They include provision of maximum concessions to national manufacturers within Russia, increasing the volume of Russian goods procured by the state authorities and state-owned companies, use of demand demonstrated by the consumer sector.

Myth No. 3. Nobody is Interested in Buying Russian Products

The survey of the Public Opinion Foundation shows 23 per cent of Russian citizens giving preference to non-food goods produced in Russia, 41 per cent prefer foreign products, while 60 per cent are assured that Russian industries can fully provide the population with high-quality domestic products.

Russian people's eagerness to support domestic producers has been demonstrated by the survey conducted by the Ministry of Industry and Trade. According to the survey, 65 per cent of the population positively assess the range of Russian consumer goods, 30 per cent choose domestic products because of their price and 22 per cent of respondents point to "consumer patriotism" as a reason for their choice. This means that Russian producers have a chance to win over

domestic target audience. The government also provides incentives to spur this process. One of the examples is the program envisaging subsidies available to those buying domestically produced automobiles. However, the chief burden of stimulating internal demand is carried by the corporate sector. The state procurement market constitutes around 20 trillion rubles.

"Emphasis is laid primarily on state procurement. Every state-owned company has special technical committees regulating the quality of procured goods. It should be high to ensure the competitive ability of the corporations", Alexander Maslennikov, an expert at the Russian Ministry of Economic Development says.

Currency volatility, imposed sanctions and cost-cutting programs enhance the competitive advantages of Russian products. And today some product groups compete not only with similar European and American groups, but also the Chinese ones.

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Today, businesses do not quite understand the essence of the imports phase-out strategy and expect to see the demand for domestic products on the spot.
However, one should remember about the Eurasian Economic Union and other international agreements signed by the Russian Federation, documents preventing the implementation of the phase-out strategy as seen by businessmen.

Alexander Kalinin,
President of OPORA RUSSIA, All-Russian Non-Governmental Organization of Small and Medium-Sized Business

Myth No. 4. Imports Phase-Out = Isolation

Imports phase-out is aimed to ensure diversification, which implies integration of national products into the global market sectors in which it can be competitive.

"The imports phase-out strategy does not reflect the government's desire to substitute for the entire scope of goods in all sectors by leaving only Russian goods in the market. The core goal is to even out competitive positions in certain segments", Alexander Maslennikov explains.

The expert also points out that such practices create negative experience. The brightest example is the attempt undertaken by the Argentine to close the internal market and switch over to self-sustainment practices. After the involuntary reopening of the borders the Argentine's economy turned out to be absolutely uncompetitive.

"If we close the market for imports, we will surely see some short-term positive effect from such barriers. But national manufacturers will be unable to recover immediately and fill the freed niches. Serious production growth depends on substantial investments and innovations, while excessive bans and barriers create incentives for mass production of low-quality products and gradual industrial degradation. We saw such an effect in the USSR to the full extent", Moisey Furshchik, Managing Partner at FOC suggests.

Experts believe that barriers to imports should be probably deliberately lowered to encourage domestic producers. The strategy will also be effective if we produce competitive goods and enter external markets.

We consider imports phase-out as a positive process for the Russian economy. China and India have followed the same trend for a long time, especially in procurement by the state and state-owned corporations. At the same time, we should understand that imports phase-out will take time.
At least 10 years are needed to substitute for the considerable share of imported equipment, ensure due quality and create conditions for competitive pricing and significant investments. That is why the foundation should be laid by the stimulation of international suppliers' localization and transfer of technologies.
We should prevent the lack of any types of products in the market and therefore imported goods that have no equivalents in Russia shall have access to the market. It is important to understand that it is not enough to construct plants to ensure comprehensive operation in the market, especially in such a large country as Russia.
We should take a multifaceted approach to the matter considering scientific research, service, logistics and specialists' training.
We continue investing in the Russian economy. Our company has recently opened an engineering center in Samara that will offer domestic solutions adapted to the market. Construction of a large engineering center is practically over at Technopolis Moscow. This will be a unique center for Russia uniting engineering, training and service components of our business.

Armen Badalov,
Vice-President for Strategy and Business Development, Russia&CIS, at Schneider Electric

Russia's dependence on imports at the rate of 60 per cent does not pose great risks to safety, as in the key sectors this indicator can vary from 5 to 20 per cent.

It does not matter if the plans of the Ministry of Industry and Trade are not realized to the maximum extent. Such a sharp decline in the dependence on imports in economic terms is of no importance. As we live in the epoch of globalization, it is cheaper and more appropriate to purchase a considerable amount of components, equipment and end products rather than produce them. This makes it possible to improve a value-for-money ratio. At the same time, it is the market and not the state that for the majority of market positions shall determine whether Russian products are competitive or it is more reasonable to import such products.

Moisey Furshchik,
Managing Partner at FOC

Myth No. 5. Dependence Will Be Halved

In early 2015, the Ministry of Industry and Trade announced its plans to reduce dependence on industrial imports from the present 88 per cent down to 40 per cent by 2020. Meanwhile, as early as in November Denis Manturov heading the Ministry said at the Federation Council session that Russia lowered industrial imports by almost 40 per cent and increased the volume of exports by 6 per cent over 10 months.

Manturov believes that the program will be realized in the major industries including the defense industry in two or three years. Three years will be needed to ensure the substitution for the most sophisticated equipment. Many people do not share such optimism. To attain this goal a technological base and huge financial resources that are limited in Russia because of the difficult economic situation are required.

In the opinion of Alexander Maslennikov success in separate niches is more viable. "The developed phase-out plans actually cover the entire industry, while a large-scale effect of the development of all industrial sectors can hardly be achieved".

The current external economic and foreign policy conditions generally impose great pressure on the Russian industry. The rules can change at any moment. The plans of the Ministry of Industry and Trade have already been subject to criticism, inter alia, on the part of the Russian Ministry of Communications and Mass Media. However, success of these plans depends first of all on the concerted efforts of the Ministry of Industry and Trade and constituent entities of the Russian Federation So far, 65 agreements on cooperation with regions have been concluded.

Workforce Reserve

Dmitry Butashin, Vice-Rector at RANEPA, told the Strategy Journal, how management crisis contributed to the economic crisis, why mandatory advanced training of civil servants should be abolished and why adaptation of the Crimean management to the Russian legislation is still far from being over.

Participants of business platforms of various levels have been recently raising the question of management quality. Thus, German Gref said at the St. Petersburg International Economic Forum 2015 that poor management was to blame for the present economic crisis. What do you think is the problem with the quality of management? How can it be solved? Can it really be a cause of the crisis?

It is easiest to say that someone is to blame for the crisis. However, I believe that everything is a little more difficult. The current instability is not standard combining the features of several crisis types. That is why if we speak in these terms, we should blame specialists working in many sectors. Thus, crisis is only partially a problem of management. If we talk about management problems as such, they stem from the fact that managers fail to understand well enough the goals they seek to achieve. Thus, for example, social and economic development strategies are available at all levels today – from the federal to municipal one. But the question is who designed them and why. In theory, such a document should contain measurable and clear criteria for the assessment of efficiency in achievement of interim target indicators. This can be used to build a team and form a plan of its professional development. However, a substantial part of strategies, both municipal and those envisaged for constituent entities, are quite formal documents. They leave it unclear how the territory should develop and why. And when such a team is taught to work well to avoid an abstract crisis, it can hardly demonstrate efficient management. It needs objectives that are transparent for everyone and a system of monitoring of follow-up actions aimed to achieve such objectives.

And who shall set these objectives?

This should be done at the level of constituent entities, i.e. they should be set by the governor or the head of municipality and certainly in compliance with all the prescribed procedures, as for example, public hearings. It is clear, that regional strategies should be integrated into federal ones. If for example, some federal thoroughfare luckily runs through your territory, it would be reckless to fail to build respective logistics around it. These are competitive advantages that you have no right to ignore. Just as it is not quite reasonable to plan production or growing of food, if you do not know how to transport it further. The existing transport situation makes production of goods in this region meaningless, as the logistics component will bring all the potential competitive advantages to nothing and goods will enter the market being extremely expensive. The strategy shall be clear and correlated with the federal development plans and the region's possibilities. It shall take into account neighboring competitors and outline interim points of evaluation of its correctness. And then there is the question of forming an efficient team. In Russia, heads of constituent entities are seldom involved in the preparation of human resources for regional managerial teams for a long-term perspective.

Frankly speaking, does the modern system of professional development of civil servants require improvement?

The existing system should be improved to satisfy the need for highly qualified managers at least to some extent. It is not just an expert opinion. It is a range of certain elaborated proposals which have been formulated as decisions of the presidential commission for human resources. Respective instructions have been given to the administration aiming to change the system of professional development with important measures, as for example, abolition of mandatory refresher training once every three years, as it is inefficient if introduced as an enforced procedure and documents on passing the qualification training are in fact the only element of attestation. You can continue your work if you received another certificate. The system of professional development should be based on state municipal officials' interest in obtaining new knowledge on a regular basis, as well as on motivation associated with transparent carrier prospects. There should be a pool of candidates specialists can be referred to if they demonstrate proactive work, ambitious professional and personal growth. Candidates should be appointed being selected from such a pool and based on an efficient rather than formal procedure. Certainly, there should be limiting motivation. We suggest a system of professional knowledge assessment by regular testing for lowest positions, as well as a system of evaluation of professional and personal management qualities for top-ranking managers.

How to make this scheme work?

In reality work has been carried out in this field for many years already. Most government agencies are prepared to employ people who are able to work and are interested in the work, its results and further promotion. Everyone is already tired of employing empty suits. It is more difficult to make such specialists assume responsibility, and it is rather problematic to assess their efficiency. It means there should be a reserve and monitoring of specialists' development within such a reserve. This should only be fixed in regulations, without any additional measures required. Money

"The system of professional growth shall be based on the interest of state municipal officials to obtain new knowledge regularly" allocated for training shall be first of all spent on specialists in the pool. Today, money is equally distributed in this field to make everyone receive a document on further training as scheduled. Some officials use this knowledgeably by taking the course they need, while others simply receive a certificate to move forward to the next stage of work. If we correctly articulate the rules of admission, development and appointment from the pool and channel major resources to that end, we will promptly get a tangible result. At the same time, any other civil servants not included in the pool and continuing their work shall be given a possibility of independent professional growth, as well as participation in various seminars on relevant problems referred to their job.

Does the Presidential Academy take part in the elaboration of the system of civil servants' professional development which is planned to be outlined in the Law on State Civil Service? What influence the new system should have on the situation in the public administration?

It certainly does. The Academy is involved in the elaboration of the key array of proposals and materials on system improvements. We are conducting a huge scope of research that is related exactly to efficient public administration and improvement of the civil servants' system. Appearance of professional specialists and motivated professionals primarily in managerial positions must have already had a positive effect.

What is your opinion of the fact that many state and municipal civil servants prefer to undergo retraining and receive additional education abroad? What are the advantages of such training? When will Russian educational organizations be able to compete with the foreign ones?

To tell you the truth, I have not got an impression that civil servants in our country in general have plenty of possibilities to go abroad for training. Employees from large municipalities are sent for such training. But in reality training abroad is still considered by many of them as an incentive measure, and not actual training. Receiving education abroad is important because one learns about a different culture with different views and approaches. People with such education can enrich the civil service environment bringing in new practices and to a certain extent a fresh look. However, the Russian education system has everything to compete with the foreign one and we have a big number of foreign specialists working at top higher education institutions.

Are any measures taken to improve professional competence of regional officials? Do they have a chance to take part in retraining or, for example, study abroad?

Authorities in different regions take different approaches to the formation of personnel training systems. They design their programs with the assistance of the federal and regional educational institutions. Our mission as the largest educational institution spanning over 60 branches is to help them in this process. We are first of all a national school of state administration, that is why we play an active role in all constituent entities. Local authorities send specialists to us for practical training. Besides, our representatives also travel to regions and the Academy has joint programs with constituent entities of the Russian Federation. The problems are the same everywhere. These are the role of the workforce reserve, need for a more focused managers' training and large-scale need for documents certifying attestation.

What is your opinion of the adaptation of civil servants of the Crimea after its annexation by Russia? Were there any special measures taken there?

The adaptation process was really tough, and I believe that it is still not over. We should understand that people lived in a different country under different laws for 20 years. That is why we should not expect that everything will change overnight. Adaptation is a time-consuming process that is impossible to implement on a click. But I can say that civil servants in the Crimea are motivated and interested to adapt. We have done a great job and performed professional testing of candidates admitted for the civil service of Russia. Specialists demonstrated very good results and knowledge of the Russian legislative and regulatory framework. Results of this great job are already visible.

What fundamentally new developments are there in professional training of state and municipal officials?

We expect the mandatory refresher training to be abolished, as well as the share of programs with improved informative content grow, which is more interesting for us as specialists and more useful for officials. We hope that the approach to training will change essentially. In other words, we want to have qualified and fastidious trainees that will call us to task for what we teach them.

"Receiving education abroad is important because one learns about a different culture with different views and approaches"

Text: Aleksey Shipov,
Tatyana Pavilova

A Precious Asset

Speaking about human capital assets a parable written by Seneca the Younger comes to mind: "What are you working for?", a passer-by asked stone cutters. The first one said: "We are working to have food", the second answered: "To cut the stones for that wall", while the third replied: "To build this wonderful temple". Human capital sets the level and determines the development rate of both companies and economies all over the world. Progress depends on people, i. e. "brains" capable of generating ideas, "hands" able to apply these ideas with limited resources.

Despite the crisis and redundancy programs implemented in Russia demand for young manpower remains a relevant issue for most employers, including the largest industry-forming enterprises. In future, this demand will only grow in many respects due to the present demographic conditions.

A policy envisaging further optimization of the number of higher education institutions remains topical, inter alia in view of the policy pursued by the Ministry of Education and Science of the Russian Federation. According to the Federal State Statistics Service, the number of both higher education institutions and graduates will be reduced by 2020. Over the past five years, the total number of private and public higher education institutions fell by 15 per cent and the number of students of universities and institutes dropped by almost 30 per cent. The number of 15-19 year-old students was cut by more than 18 per cent, while the number of those at the age of 20 to 24 dwindled by 24 per cent. This reduction trend will persist until 2020 in light of the reorganization of institutes and universities by expanding the capacity of the "driving forces" of higher professional education with smaller but efficient institutes joining them.

In five years, the number of prospective students (in the 15-19 age groups) will exceed the 2015 figure only by 4 per cent, which is negligible. The number of young people in the age group of 20 to 29 years old will reach 16,122,000 by 2020 falling behind the 2015 figure by 26.4 per cent. The situation is aggravated by the misbalance in the structure of graduates with the abundance of still highly popular humanitarian specialties and the lack of engineering ones.

The conclusion is simple: to work for a long-term perspective, "to build this wonderful temple", one should understand and feel the contemporary youth, be aware of the relevant management instruments and methods, i.e. be among the leaders in the "race for young talents".

This article is a result of the authors' observation of development of the best HR-practices and analysis of "hot" opinion of experts that are Russia's leading employers and higher educational institutions. We would like to express our special gratitude to participants of the Sustainable Future of Russia platform for their help in ensuring detailed understanding of young people's attitude to the problem covered in this article, sincere and consistent position of undisputed future leaders.

In the same boat

"Greetings, new tribe! Still young and undiscovered," Alexander Pushkin wrote in his poem "Again I visited..." What the "new tribe" looks like nowadays is a question currently raised by all stakeholders of the youth labor market.

Employers are above all focused on the targeted search of likeminded people.

Following this trend the selection process is also growing more complex with a greater focus on soft skills and identification of candidates' value orientation. This can be explained from the economic point of view: education of even talented specialists that cannot adapt and grow in a new team is much more expensive than introducing changes to the selection system.

However, the quality of professional education (hard skills) still remains the basic criterion for the absolute majority of employers selecting candidates. At the same time, they emphasize the critical shortage of young engineers and mathematicians, as well as oversaturation of the youth labor market with business specialists (management, marketing, economics and finance).

Engineering management skills formed at the interface of professional engineering knowledge and skills associated with the management of the substantive technical area (production management) are also highly appreciated, while the latter is also typical of many non-engineering specialties.

Text: Aleksey Shipov, Tatyana Pavilova

"We are trying to ensure that young employees already have a high level of hard skills, as for example the average score at the level of 4,5 points or higher. On-the-job training experience in Russia and abroad is also important", Ekaterina Smirnova, recruiter at SAP CIS, explains.

"Engineering management competencies are very important for us. They are new and practically set aside by higher education institutions", Svetlana Kraychinskaya, Vice-President for HR at UAC, points out.

From the viewpoint of successful employment, all employers we interviewed for this article emphasized the importance of such competencies as analytical skills and systems thinking for young talents. These competencies are believed to be developed by educational institutions and employers expect to receive "ready-to-use" employees. The largest universities share this opinion. The list of top five highly required competencies also includes communication and leadership qualities. Leadership is most often developed by employers as part of the candidate pool preparation program.

"Surely, basic knowledge, ability to adjust to the situation, as well as systems and unconventional thinking are important. Systems thinking is exactly what is especially appreciated in our graduates", Mikhail Kolesnichenko, Director of the Student Practice and Employment Office at the Tomsk State University, says.

"First of all we check if graduates have been taught to look for and analyze information and draw respective conclusions. All this falls in the competence called "analytical skills". It is of paramount importance for us as when a young man joins our company he will have to deal with a large volume of information. If he did not learn this at the university, he will be unable to do this at work. That is why it is a top-priority requirement", Ekaterina Smirnova, recruiter at SAP CIS, notes.

Understanding the need for communication and leadership skills higher education institutions also seek to offer students possibilities for their development under the programs realized by various internal leadership institutes, as well as using extracurricular activities".

However, greatest attention to the development of these competencies is paid by humanitarian institutes and universities, as young engineers do not need such skills to enjoy popularity with potential employers.

"Social competencies for a young specialist are as important as professional competencies and can be even more important at the stage of professional formation. That is why we lay special emphasis on extracurricular activities. It is a special sociocultural environment that encourages students to obtain additional knowledge and motivates them for better performance.

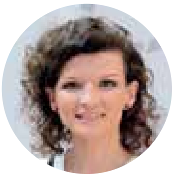
We teach young people to communicate appropriately so that they could receive relevant and latest information related to their goals and processes in which they take part, as well as influence these processes", Alexey Spirin, head of the Youth Policy Department at RANEPA, commented.

The most important task for any employer is assessment of young candidate's potential in terms of communication and analytical abilities that help grasp a huge amount of new information within the first two or three years at work. Employers claim today Russia lacks young HiPo specialists irrespective of the area of education.

According to young people, the key qualities that can help them achieve success are professional skills, responsibility, prompt performance of functions, ability to take the initiative and creativity. In terms of geographical distribution, graduates from institutions located in Russia's central regions pin their greatest

In our opinion, one of the key competencies for selection for our leadership program is potential. Speaking about potential, we say that it is never too big.

Inara Gerikhanova,
Employer Brand and Talent Sourcing Manager at Unilever



We work very closely with the platform specializing in applying business cases. They describe themselves as a club of future CEOs. And surely young people are very much enthusiastic about it. As a result of such events we always have talented people coming to us.

Ekaterina Smirnova,
Recruiter at SAP CIS

hopes on creativity, imagination and ability to address difficult tasks, young people from Ural and Siberia put responsibility and prompt performance first. It is noteworthy that this opinion is formed by young people as a result of open events organized by employers, as for example the so-called career days held at colleges and universities and trade career fairs. However, in practice far from all graduates demonstrate such qualities.

Competitive Spirit

Heinrich Heine's aphorism in which he says that youth is unmercenary in thoughts and feelings and that is why it has the deepest understanding and feeling of the truth is fair.

Despite the fact that the idea of cooperation of employers with universities and colleges to address youth employment is in the air, the quality of joint target programs is questioned on both sides. Employers believe the system to be rather conservative and unable to respond always and promptly to their key interests and requirements. Universities in their turn point to unclear presentation of target goals by employers and their insufficient involvement in the employer-sponsored educational processes.

"We would prefer to cooperate more intensively with organizations employing our graduates especially in terms of employer-sponsored education, an instrument that we have long and actively applied, because leading a would-be specialist "by the hand" is far more advantageous than random recruitment", Boris Padalkin, Vice-Rector for Education at Bauman Moscow State Technical University, complains.

The most popular format of students' relations with employers is career days. They serve predominantly to provide information and only rarely aimed at career guidance.

Employers consider career days to be a sort of students' mobilization and a way of informing and involving young people in communication, boosting the appeal of the industry or profession in general. That is why this format is not the most effective one in terms of attracting best young talents.

The most important instrument of employer-sponsored education is joint programs organized by employers and higher education institutions: involvement of employers in various students' activities and projects in the capacity of mentors and experts, integration of employers' practical training in the basic educational program, creation of specialized departments and master programs. First of all, such a form of joint work allows to transfer some of the processes of adaptation of future young specialists to the stage of training. Implementation of such programs is needed to ensure mastery of specialized professional skills required to fulfill tasks, help make the informed choice of professional activity and meet future boss.

"The Higher School of Economics has special departments established by companies. They serve as premises for lectures and seminars organized by the representatives of such companies. Students can apply knowledge they have acquired in practice", Dmitry Bolkunets, Director of the HSE Alumni Association, says.

At the same time, employers consider events containing competitive, educational and powerful communication components to be the best instruments for attracting young talents that are most motivated and as a rule experienced in terms of soft and hard skills.

Generation Y

A popular quotation reads: "Youth dreams of fame".

Graduates entering the market today belong to generation Y. Russian young people have features typical of both all Ys and those with specific traits.

First and foremost, employers say that young talents beginning their career today are more inclined than their predecessors to change employers. This difference is especially apparent in engineering specialties for which long-term cooperation with the employer has traditionally been a persistent trend. This does not only oblige employers to take greater effort to

Young people joining the company today have no intentions to stay here for the whole life. It does not only oblige employers to take greater effort for their retention, but also to set stricter requirements for young candidates, as their efforts shall be justified in the short term. This obliges us to offer greater possibilities, while young people have to ensure results within a short period of time.

Svetlana Kraychinskaya,
Vice-President of HR at UAC

retain employees, but also results in growing employers' requirements set for young candidates as efforts taken should be justified in the short term.

Despite the global trend that shows generation Y seeking mostly horizontal career and emotional experience, Russian young people more than any others strive to fast-paced vertical career and high incomes. A generous compensation or additional material motivation are traditionally used by many employers to retain the best of the best. However, to obtain access to such an offer, young talents have to go through several stages of selection or perform well in one of the probationary programs.

The youth has fewer possibilities to build a vertical career as this requires not only high potential, but also sufficient professional experience. Instead of the vertical growth employers offer young talents a possibility to take part in various related projects, research, solutions and other initiatives to support their professional motivation, as well as demonstrate their abilities.

An important element of retention efforts shall be support of experienced colleagues that help to handle

professional and communication aspects of work in the best possible way and contribute to the formation of conscious professional motivation. To this end, manufacturing enterprises use guidance at work, while international companies actively develop mentoring and coaching functions.

"We do not only have to give young people what they need, but also identify a direction for them to follow and lead them", Inara Gerikhanova, Employer Brand and Talent Sourcing Manager at Unilever, says.

Young people looking for their way in career with the company need a little more attention. They need a manager to outline their goals, a mentor to guide them for overall growth and a coach who can help achieve certain goals. As for employees, their task is to understand that these people are important in their life", Ekaterina Smirnova, Recruiter at SAP CIS, explains.

Analyzing various aspects of future work, young talents themselves speak about their wish to do something significant for the community and home country. They combine desire for the acknowledgement of their achievements globally with eagerness to work hand in hand with like-minded people having the same system of social values. That is why, we believe it important to develop corporate social responsibilities practices to win over and retain promising young people for business. This work should be based on the earnest desire to do business right.

Flexibility and Energy

The economic situation compels to improve performance and efficiency using new management, technological and technical solutions, to become progressive, innovative and flexible. And it is young talents who can bring in interesting ideas and unusual approaches to the achievement of goals.

That is why we will not be able to ensure competitiveness in future if we fail to pay attention to young people today. The Sustainable Future of Russia platform for young professionals often organizes simulation games that are applied in the real consulting practice to assess analytical skills, systems thinking, communication abilities and leadership potential of the company management.

At one of such events a team of young physicists took the first place and demonstrated results comparable to deliverables of the best "grown-up" managers by tracking all the subtle aspects and trends of the game and building an efficient winning strategy.

Thus, flexibility and energy of the new generation proves that there are young talents in Russia ready to demonstrate excellent results and become change leaders as soon as in the nearest future. At the same time, we should clearly understand that this work cannot be done with a magic wand and is actually toil involving experts, adjustment of subtle management tools, financial resources and many other factors. But surely those who are not interested in the result can avoid doing all of this.

Following the Global Trend

Many countries have already adopted the model of environmentally sustainable development. Nordic countries have shown great success in this. Russia has also caught up the global trend, especially as the potential of large businesses operating in the country allowed it to come close to the leaders. Irina Bakhtina, Vice President for Sustainable Development of Business and Corporate Relations at Unilever, told about efforts taken to implement new mechanisms.

First of all, could you please explain the meaning of the term 'sustainable development' as it is construed today?

Sustainable development is an international term adopted in Rio de Janeiro as a universal strategy for national and international levels 16 years ago. The main principle of this concept implies that today's needs of people should not be satisfied at the expense of future generations and damage the environment.

Such Nordic countries as Denmark, Norway, Iceland, Finland and Sweden have successfully switched over to the model of environmentally sustainable development, and the level of social well-being in these countries is high.

What scope of work and prospects has Unilever outlined for itself in the field of sustainable development?

Sustainable development has underpinned Unilever's business model for five years. In November 2010, the Company announced the launch of its brand-new strategy "Sustainable Living Plan"". The main objective is to double the size of the business whilst reducing its environmental footprint and increasing its positive social impact.

Could you please describe specific tools and results of the plan?

In 2015, as part of the strategic partnership agreement between Unilever and the Moscow School of Management SKOLKOVO, the Center for Expertise in the field of Sustainable Development (SKOLKOVO Sustainability Business Lab) was opened on the platform of the SKOLKOVO Institute for Emerging Market Studies (SKOLKOVO IEMS).

The programs implemented by the new Center are aimed to evaluate the economy from the standpoint of sustainable growth, inform young entrepreneurs and Russian business leaders of this concept, and elaborate recommendations to accelerate transition to the "sustainable business model", partially by means of "smart" regulation tools. On the global level such a lab was launched by Unilever only two years ago and in its online version. In Russia, due to strategic partnership with SKOLKOVO business school, this model is being implemented as a comprehensive research consulting and academic platform for the first time. In January 2016, the business lab will present the results of its first research. A four-day educational program themed "Sustainable Development: Building a Business Model in Russia" that will start in February is intended for directors for strategy and business development, entrepreneurs and specialists working in the field of sustainable development, corporate social responsibility, risk management and other related areas. It should be said that cooperation with the lab is important not only for Unilever as a company, but for our consumer good brands transforming today into brands with a positive social mission. Thus, in February 2015, Lipton announced a launch of its Goodstarter program throughout Russia. The program is designed to support small business enterprises focused on food production and providing services with great social impact. Every year we report on the results of implementation of Sustainable Living Plan. One on the key achievements of the last year was adoption by the world's manufacturers (including Russian enterprises) of the 'zero waste to landfill' principle. Today, 100 per cent of Unilever's manufacturing waste is recycled or used as utility waste for other industries.

In early December, the UN organization which has its own sustainable development program held a conference in Paris. Do you cooperate in this respect?

We support the new UN sustainable development program. Out of 17 global targets of sustainable development we selected some for us and our brands that we can implement and are already implementing. One of such targets is prevention of climate change. We estimated that Unilever's global production and supply system loses 300 million Euros per year as a result of climate change. Nowadays, 14 per cent of the company's portfolio in the major 14 countries, including Russia, are represented by concentrated and more "space-saving" goods allowing to minimize the undesirable impact on the environment when using them. In 2008, this figure was only 4 per cent.

Unilever lowers the level of greenhouse gas emissions at its enterprises: since 2008 we have cut greenhouse gas emissions from energy systems we use by 37% if calculated per tonne of manufactured products. Eco-friendly refrigerators we use for storing ice-cream at retail outlets contribute to substantial reduction in carbon footprint, as they do not contain freon gas and save by 10 per cent more energy compared to standard models. To date, we have purchased almost 2 million such refrigerators throughout the world with 54,000 of them applied

"In 2015, as part of the strategic partnership agreement between Unilever and the Moscow School of Management SKOLKOVO, the Center for Expertise in the field of Sustainable Development was opened on the platform of the SKOLKOVO Institute for Emerging Market Studies" in Russia. Moreover, Unilever receives more than 55 per cent of all agricultural raw materials from environmentally sound sources. In Russia, 60 per cent of the whole volume of sunflower oil supplied by farms from Krasnodar and the Rostov Region for our production needs is certified in accordance with the principles of sustainable agriculture. In order to promote the idea of preventing climate change and raising awareness of Russian people, Unilever started to cooperate with the Russian Carbon fund for the development and support of environmental projects.

One of the results of this partnership is the launch of the Climate of Russia international portal designed to highlight environmental policy and implementation of environmental innovations in Russia. Unilever is one of the general partners of this portal. The portal is aimed to play the leading role in raising the level of environmental awareness of climate and sustainable economic development among Russian people. That is why, the Department of Applied Economics and Commerce at Moscow State Institute for International Relations is the portal's academic partner.

Does Unilever work with young people in Russia? How does it encourage their ideas and initiatives in the field of sustainable development?

It is the fourth year that Unilever has been one of the key partners of the Sustainable Future of Russia Platform for Young Professionals and the all-Russia competition "Young Professionals of Sustainable Future of Russia". In 2015, Unilever suggested that participants to consider the subject of "Change of Consumer culture in Russia and Transfer to the Concept of Stable (Responsible) Consumption". Based on our internal estimates, use of consumer goods accounts for 67 per cent of negative environmental impact. Unilever selects the best works in the category and continues to cooperate with graduates of the Platform who won the contest in the previous years. This summer, over 60 representatives of the company management met with Danila Kozlov, winner in the eco-agriculture category (2014). The meeting was held in the framework of the company's strategic event that took place on the premises of Sovkhoz imeni Lenina, CJSC, and specifically the agro-tourist complex now headed by Danila. Leaders of the company's Russian branch paid attention to the environmental, social and economic efficiency principles applied by the state farm (sovkhoz).

Rational Localization

Without government support the Russian pharma market can hardly pass through the crisis without big losses. The Strategy Journal talked to the representatives of major producers of pharmaceuticals and medical equipment – Vadim Vlasov, President of Novartis Group in Russia, and Irina Dorokhova, Director for Government Affairs in Russia, Central and Eastern Europe at Johnson & Johnson, and found out what cooperation options were proposed by the key market players, where funds to upgrade pharmaceutical enterprises will come from, as well as what makes complete imports phase-out impossible in the healthcare sector.

According to Irina Dorokhova, Johnson & Johnson considers Russia to be one of the top-priority markets. That is why the company has a good partnership relation with government institutions.

Many experts claim the Russian market is totally different from the global one. What aspects do you consider when working in Russia?

The Russian market demonstrated really impressive growth rates for over ten years, which made it attractive to international companies. But since the end of 2014 the healthcare system and the market itself have fallen under the influence of the overall negative economic situation in the country. However, we should regard this period of difficulties as a period of possibilities. Johnson & Johnson opened a branch in Russia in 1991 and since then it has remained loyal to the Russian market describing it as its top-priority markets.

As a reliable partner of the state, we support innovative economic development and implementation of long-term state programs in the healthcare and pharmaceutical industry. We see a significant potential of our participation in many state initiatives, such as assistance in development of the Russian pharmaceutical industry, support of localization projects, as well as conducting scientific research. Moreover, we estimate the prospects of public and private cooperation projects in the healthcare sector, pilot programs in pharmaceutical insurance and ensuring of uniform regulation within the framework of the Eurasian Economic Union.

The crisis destabilized all economic sectors. The healthcare sector was one of the most insecure. What should be done in your opinion to help the system unlock its potential in this period?

Public health is one of the key factors of economic growth and should become a common top-priority objective. Unfortunately, the complicated economic situation in the country causes difficulties in this industry. Today, it is crucial to understand that federal budget spending on the healthcare sector is first of all investment into human capital, economic development, improvement of the well-being and living standard in Russia.

With limited financing of the sector, focus should be made on the improvement of the system's operational efficiency, and therefore ensuring greater benefit for patients. We should seek a sharper decline in such indicators as exposure to diseases, complications, mortality, repeated visits to doctors and improve preventive treatment.

As for the public-private dialogue, it is important to identify cost efficiency tools appropriate for both parties. These could be long-term contracts, universal medication support for most critical diseases in Russia, introduction of technologies reducing costs of the hospital segment.

What tools can Johnson & Johnson suggest as part of the collaboration with the government in order to build a more efficient cost model?

We believe that there should be a closer dialogue with the government. The potential of public-private partnership (PPP) programs is obvious. We are absolutely certain about it, because it was Johnson & Johnson that implemented the first PPP healthcare project in cooperation with the Ministry of Healthcare of the Republic of Tatarstan.

In 2008, the Educational Center of High Medical Technologies was opened in Kazan to implement the HR policy dubbed "Development of Pharmaceutical and Medical Industry of Russia for the Period until 2020" and the Healthcare 2020 strategy. Being a company with extensive expertise in countries with different levels of economic development, we are ready to suggest a range of methods to enhance budget spending efficiency in the field of medication support.

First, these could be so-called finance-conditioned agreements stipulating progressive discounts depending on the number of patients and duration of treatment or result-conditioned agreements envisaging payment depending on treatment efficiency. Second, long-term contracts for supply of medications and medical equipment.

The advantage of such agreements is that they can be concluded under conditions that are impossible to achieve with the procurement mechanisms existing in the public healthcare system. I would like to mention the prompt adaptation to the established practice of government procurement without additional funding.

Moreover, the use of long-term contracts can ensure planning of the state guarantee program execution over the next years, while customers and suppliers under such contracts will be offered a mutually beneficial discount.

The product price can be fixed at the agreed level which will be independent of exchange rate fluctuations with guaranteed uninterrupted supplies.

What is your opinion of the government policy aimed to stimulate imports phase-out? How did your company face this challenge?

There is no doubt that the formation of a strong medical industry and stimulation of localization processes in Russia is an important and appropriate decision of the Russian government. But such processes should be carried out in a rational and responsible manner. Patients' needs should be taken into account: imports phase-out should be prudent and correspond not only to industrial policy, but first of all to the needs of the whole healthcare system, as well as expand patients' access to medical treatment. That is why it calls for an individual approach.

Thus, localization and imports phase-out can turn out to be inefficient if companies' decisions on localization are nothing more than a tool to survive in the market. We should bear in mind that certain innovative medication and medical equipment cannot be manufactured locally because they are produced for the global needs only on one or two platforms in the world. As part of its local projects, Johnson & Johnson establishes partnership relations to sell our joint produce and transfer our pharmaceutical production technologies to Russian companies.

Thus, even today we have a whole range of locally produced pharmaceuticals for treatment of oncohaematological diseases, HIV and tuberculosis. Soon we will launch projects for medical equipment.

According to the data from the Ministry of Healthcare of the Russian Federation, the size of the Russian **pharmaceutical market** in 2014 amounted more than **900 billion rubles** and of the medical products market about **200 billion rubles**

Vadim Vlasov claims imports phase-out can be relatively painless if two methods of product localization are applied. However, he assures that complete phase-out is unfavorable for the industry.

How is the imports phase-out policy implemented in the pharmaceutical sector and especially in terms of the substitution of imported vital and essential medication? Which of the Russian companies have taken the lead in imports phase-out?

Imports phase-out policy implemented in the pharmaceutical sector including the substitution of imported vital and essential medicines was announced by the government as early as in 2010 when the Pharma 2020 program was at the earliest stage of its elaboration.

The list of medicines produced locally has been considerably expanded over the recent years. Speaking about imports phase-out, I would like to specify that localization can be ensured both by setting up a production facility within the country and establishing partnership relations between foreign manufacturers and Russian companies.

Novartis is implementing its localization plans using both methods. At the same time, we see localization not only as production, but also as diverse cooperation with Russian experts in such fields as science, jointly developed solutions, clinical studies and educational programs. As for complete imports phase-out, I should say that with the current global cooperation complete local production can be significantly less profitable. As for raw materials used to produce medication, including pharmaceutical substances, a huge volume of output is required for the investments into local production to pay back.

In my opinion, the issue of incentives to relocate production of innovative medication to Russia remains open. One of the tools to address this can be a synergy of contracts and counter contracts for procurement which can also be long-term with fixed prices to avoid exchange rate fluctuations.

Decree No. 708 envisages conclusion of three-party agreements between an investor, a constituent entity of the Russian Federation and the Russian Ministry of Industry and Trade. However, a number of issues concerned with special investment contracts remain open. Specifically, a respective provision in the Tax Code is missing, and the liability for nonobservance of contractual terms by the state should be clarified.

We are currently negotiating improvement of this mechanism and possibility to combine special investment contracts with long-term state procurement contracts with the relevant executive authorities.

To what extent profound retooling of production facilities is required today? When will it be possible?

Introduction of Good Manufacturing Practice in Russia and EEU obviously has a positive effect on retooling of production facilities. To estimate the extent of modernization required in the industry is rather a difficult task. Such an estimate will be a sort of an average measure.

However, the number of pharmaceutical production facilities meeting the highest standards has substantially grown over the recent years. One of the problems associated with localization is identification of local medication. Recently adopted Governmental Decree No. 1289 lists primary and secondary packages as a local product criterion for branded equivalents that will be in effect until the end of 2016 and stipulates preferential state procurement terms compared to imported products.

Such preferential terms do not cover localized innovative pharmaceutical products. Besides, it should be said that modernization of production facilities is a permanent process without a final point which is associated not only with production itself and its infrastructure, but also with personnel and technologies.

Novartis is interested in the expansion of partnership relations with Russian specialists seeking to develop modern approaches to production and quality control of pharmaceutical products.

Foreign medicines comprise **more than 70%** of the market of drugs and medicine products.
The share of sales of Russian medicines is **about 25%**

Text: Darya Kichigina

Cost of Legalization

The European refugee crisis reminded Russians of their own relations with non-residents. But these problems have not appeared in Russia out of the blue. They have been gradually amassed accumulating more and more aspects including the legal status of expatriate employees, growing share of shadow economy and dwindling labor resources.

According to the Russian Federal Migration Service, the number of foreign residents in Russia was 10.5 million as of October 2015 with 1.7 million of them having labor permits. Approximately the same number of people works illegally. Meanwhile, this year the number of legally employed foreigners has dropped almost twice compared to 2014. Surely, one of the reasons for such a decline is the labor market shrinking as a result of the crisis.

A survey conducted by Levada-Center in August 2015 showed **51 percent** of respondents confessing that they experienced hostility to representatives of other nationalities.

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But there is another trend that also contributed to the situation and that is a switch over to the shadow economy. Trying to solve this problem, the Russian Federal Migration Service continues amending laws on migration. Thus, on January 1, 2015, new amendments regulating entry into the country, employment procedures and residence rules came into force.

According to Konstantin Romodanovsky, Head of the Russian Federal Migration Service, new rules concerning the application of punishment for offense made it possible to progress in migrant workers' legalization. According to the FMS statistics for October 2015, over 1.5 million foreign residents were refused entry to the Russian Federation because of the violation of the law, while around 500 of them received a life ban. Yulia Florinskaya, the leading researcher at the Institute of Social Analysis and Forecasting, RANEPA, claims that success is far from being straightforward, "I believe that entry to the country should be prohibited only if a criminal offense is committed. Today, entry is forbidden for two administrative offenses: speeding or jaywalking. For such violations foreign migrants can receive an

"Measures aimed to restrain irregular migration and non-registered employment are placed on equal footing with crime and terrorism prevention. As a result, migrants who came to Russia for work and failed to legalize their status are considered to be criminals. This permanent association extends to legally working migrants as well, which entails social stigma and turns discrimination against them and regular abuse of their rights into a publically accepted norm".

Irina Ivakhnyuk,
Doctor of Economics, Professor of the Department of Population, Economic Faculty of Moscow State University, Expert of the Russian International Affairs Council

entry ban for three years. And this ban concerns not only builders, loaders and street cleaners, but also highly qualified workers. It would be more efficient to impose only penalties in such cases", the expert thinks.

Another aspect of this problem is that given the severity of punishment those who commit such violations often ask not to enter them on record to avoid consequences and just give bribes thus increasing the shadow economy turnover. This adds complexity to the already existing crisis situation with migrants' "grey" incomes and expenditures. Thus, the cost of legalization of a foreign worker according to some specialists is so large in Russia that it leaves them no other choice. As from January 1, 2015, a law substituting allocation of quotas for migrant workers with the patent system came into force in Russia. According to the Russian Federal Migration Service, the base cost of a patent for work in 2015 was 1,568 rubles per month. Regions add their fixed multiplier to this amount. For example, a patent for work in Moscow could be purchased for 4 thousand rubles in 2015. Previously, a work license in Moscow cost around 1.2 thousand rubles.

We prohibit entry to the territory of the Russian Federation for gross violation of our legislation. We take a differentiated approach to this issue. The time of the entry ban depends on the gravity of such an offence and can last from one year to a lifetime. If a foreign resident placed in a special center suddenly simulates sickness or disease, is taken to a hospital and escapes from it, I am convinced that this can be considered to be a gross violation and such a resident should receive a life entry ban. This would be an absolutely adequate reaction of the Russian Federation.

Konstantin Romodanovsky,
Head of the Russian Federal Migration Service

The number of Russian citizens **capable of working** drops every year **by a million** with this trend expected to persist **until 2027**

Growing expenditures of migrant workers on authorizing documents for temporary employment in Russia aimed to regulate labor migration flows, can in fact enhance corruption. The "grey" money turnover is also supported by a sophisticated system of registration of foreign migrants. According to Yulia Florinskaya, RANEPA expert, this procedure should have been simplified a long time ago. "Everyone knows that nobody lives at the address of their registration. As neither employers, nor landlords want to have migrants registered at their place, the latter buy such registration. A huge financial flow comes past the state budget to intermediaries selling addresses", the leading researcher claims.
Yulia Florinskaya suggests making registration beyond residential accommodations possible, which will first of all ensure that foreign workers actually live at the place of registration. Moreover, such a procedure can even be replaced by the registration with the Federal Migration Service.

Another painful issue is labor dumping which in the opinion of Russians is provoked by migrants and results in the displeasure of local citizens. However, surveys have not confirmed this opinion. Experts explain that the entire labor market can be split into niches. The lowest level represented by street cleaners and builders that are foreign migrant workers. Internal migrants belong to the medium niche. These are skilled specialists prepared to work for lower wages than local residents occupying the top niche of such

The RANEPA Institute of Social Analysis and Forecasting claims that **only 5 percent of landlords** are eager to have non-resident tenants registered **at their lodgings**

fragmentation. Meanwhile, availability of low skilled workers makes it possible for others to improve their competences and work in a higher segment for a larger salary. However, there are areas with apparent dumping. "We have studied household labor market, i.e. baby tenders, nurses and housekeepers. Salaries in this category are obviously low. Workers from Kirghizia, Tajikistan and Uzbekistan earn a much smaller salary than their Russian peers. However, lower salaries broaden the range of possibilities for those who can use these services allowing to stay in the labor market and retain a paid position. That is why the question of dumping is very controversial", RANEPA expert Yulia Florinskaya gives an example. Despite the general negative attitude on the part of the local population analysts are assured that there is no overflow of foreign migrants causing an imbalance. Their number is regulated by the needs of the labor market. The question is about the lack of such resources. Increased legislative pressure, economic downturn, a shift of some migrants to other countries, growing share of the shadow economy — all this according to experts will contribute to the decline in the number of foreign workers in the nearest future. One should not forget that the CIS potential is exhaustible. In this case the Russian government will face another problem – finding workforce, as most often foreigners do the job that is not popular among local residents. Such a distressing situation is developing against the background of population ageing and natural decline registered in the country. To solve the problem of population decline in Russia specialists propose to permit foreign migrants to register themselves as permanent residents of the country. Besides, a certain stage of migration policy development should be the creation of the single labor market of the Eurasian Economic Union. The project is rather attractive for all EEU members. For Russia it is first of all a fundamentally new level of integration of former Soviet countries. Second, it is a possibility to solve problems with illegal migrants. However, to ensure a full-fledged work of this mechanism, there should be structures responsible for the development of coordinated legal framework for employment of citizens of member-states, application of their skills and providing social security and pension guarantees.

Asian Express

Analysts claim economies of the Asia Pacific Region are among the fastest growing. Many countries of the world seek to have serious commercial relations with the region. Artyom Anikyev, temporary acting director of the Department for Support of Asia Pacific Region's Projects at the Ministry of Economic Development told the Strategy Journal whether Russia would be able to jump into the train running towards considerable growth of exports to the east and whether it should be concerned about risks associated with the new integration.

Is it possible today to determine the role of Eurasia on the international stage and are there any prospects for the area to become the leader in the global trade and economic relations?

We should understand that Eurasia is a relative concept. Eurasia is a gigantic area that is difficult to structure as a single whole. There is the European Union that is its part, an old center of power and a huge market that still continues growing slowly. There is a relatively new association (the Eurasian Economic Union) that was officially established only at the beginning of this year, but two additional members, i.e. Armenia and Kirghizia, have already joined it. The EEU is a fresh term in the contemporary integration. It is an entity based on the new legal framework. The agreement on the Eurasian Economic Union was based on progressive templates, including the EU documents. Today, the EEU is the world's second entity in terms of integration depth which in certain aspects has surpassed the EU. China has intensified its efforts this year working on the Silk Road Economic Belt (SREB) project that envisages the spread of economic influence first of all in Central and South Asia. In fact, the Silk Road concept extends to the whole Eurasian macroregion. In May, the leaders of Russia and China signed a joint statement on integration of the EEU and the Silk Road Economic Belt (SREB). Members of the Eurasian Economic Union gradually prepare to negotiate the agreement on the Union's trade and economic cooperation with China. Russia and China set up a special commission for the EEU and SREB integration, which met on August 25 for the first time. The two countries agreed to employ the SCO platform on a broad scale to elaborate decisions. Thus, the region is the site of active integration processes and their development pace makes it possible to speak about phased formation of Eurasia's certain independent role on the international stage. And yet, the idea of having united Eurasia is rather speculative.

How will the establishment of the Trans-Pacific Partnership affect relations in the Asia-Pacific Region?

Its formation provides a major impetus to the integration agenda for all economies. The commercial policy has a concept of competitive liberalization, when your partners gain liberalized access to the market of a third-party country and you do not. In fact you find yourself beyond competition with a de-facto barrier erected. Today, this agenda of the formation of regional integration spaces is actively developed by all the key players. The Regional Comprehensive Economic Partnership (ASEAN plus China, Japan, the Republic of Korea, India, Australia and New Zealand) is being negotiated. It is a huge free trade zone exceeding even the Trans-Pacific Partnership in terms of the size of the economies involved, although it is still passing through an earlier stage of negotiations. Russia monitors the processes, but did not engage in them previously because of a whole range of constraining factors: at first the country joined the WTO, and then great resources were channeled to the formation of the EEU. But now we try to compensate for the time lost: the first agreement on the free trade zone was concluded between the EEU and Vietnam as a third-party country in record time. Out of a large number of applications the first partner in the Asia-Pacific Region was selected based on the rate of economic development which remains in Vietnam at the level of 6 to 7 per cent a year even during the crisis, as well as the scale of its economy (on the one hand, Vietnam represents a relatively large market, and on the other hand, Vietnamese exports cannot cause serious damage to the Russian economy). The viability of creating a free trade zone with India is currently being analyzed, and there are similar plans concerning the Republic of Korea. Commercial and economic cooperation is negotiated with China. At the meeting of the intergovernmental commission Russia supported the idea to take steps to create a free trade zone with Singapore. Surely, apart from the positive incentives for energizing integration processes, Russia can come across a negative effect of the Trans-Pacific Partnership, however strategically its establishment overhauls the system of relations in the region.

What risks and threats to Russia associated with the new integration can you see?

There is a mathematical model used to estimate the effect of free trade zones and evaluate all the factors: production, dues and results of trade liberalization. Today, the structure of Russia's export trade is such that interim estimates show the effect of the Trans-Pacific Partnership within the statistical margin of error, which means that the short-term result is practically unperceivable, while in the long run it will constitute around 0.01 per cent of the GDP. We are involved in the global trade to a minor extent and if today Russia exports mainly oil and gas, trade liberalization with value added products will not affect our present market. At the same time, estimates show that some damage will be caused to our agricultural, dairy, petrochemical, machine building sectors exporting certain volumes to Asia. And in this case the model demonstrates that possibilities for the growth of such exports are declining. The currently existing foreign trade structure is not subject to substantial impact of the Trans-Pacific Partnership, but

"The agreement on the Eurasian Economic Union was based on progressive templates, including the EU documents. Today, the EEU is the world's second entity in terms of integration depth which in certain aspects has surpassed the EU"

there are risks associated with the desire to diversify exports and shift over from raw commodities to value added products.

What are the prospects of energy exports to the Asia-Pacific Region?

Our study of the potential growth in demand for energy resources in the Asia-Pacific Region showed that it will generally reach 30 per cent by 2030. Analysis covered mostly key Asian countries, rather than the Asia-Pacific Region, including India and Bangladesh, and excluding the USA and Canada. The key change is the lower use of dirty energy. The share of coal in the energy balance will be considerably reduced with the increasing consumption of gas and nuclear power. If we consider specific indicators, the current share of coal in the energy balance of the Asia-Pacific Region constitutes around 50 per cent, oil – 30 per cent, gas – 10 per cent and hydraulic and biomass power – 6 per cent each, while each of the nuclear and renewable energy constitute 2 per cent.

The internal structure will substantially alter in 15 years: the share of coal will grow only by 10 per cent, while the share of oil will increase by 30 per cent pro rata to the overall rise, the share of gas will surge by 90 per cent, nuclear power will be up 4 times, while renewable energy and hydraulic power will increase by 40 and 50 per cent, respectively. The major consumers of energy resources and market drivers will be China, India, Bangladesh, Indonesia and Malaysia. Demand for resources will spur the need for high-tech services provided by Russia in the energy sector. Great demand for power lines construction technologies attracts attention as one of the export areas. Russia has experience that can be useful for India and Bangladesh that are not completely electrified.

Are there any plans to create new lines for the transportation of energy resources?

Basic lines already exist with gas and oil pipelines being constructed and LNG terminals being built in many countries. Electric power exports are being considered, which is very interesting to the Far East. There is a speculative energy ring project envisaging energy supplies from Russia to Japan, Korea and China. It is an appealing but sophisticated project in terms of regulation documents. We are constantly addressing such tasks with our partners.

What investment projects and in which economic sectors are implemented today with our partners in the Asia-Pacific Region?

Surely, energy is one of the top-priority sectors. Recently a transaction was concluded on the acquisition of a share in SIBUR by Sinopec, a Chinese petrochemical corporation. Besides, the Chinese have increased their share in Yamal LNG. There are also serious projects in such high-tech industries as construction of data processing centers in the Irkutsk Region – a joint program of En+ and Huawei. The project is attractive in terms of its format, and private companies have agreed to cooperate. The first stage envisages investments in the amount of 50 million US dollars and the second implies increasing the amount up to 300 million dollars. There is an agreement on the construction of a high-speed thoroughfare from Moscow to Kazan with the participation of Chinese partners. There are important projects in the agricultural sector: some time ago a Japanese company constructed a green house (pilot stage) for growing agricultural products in the Khabarovsk Territory. The climate and territory of the region are suitable for the development of the agricultural industry, besides this product can be exported to the investor countries. Another company that has worked in the agricultural sector for a long time is from Singapore, it deals with supplies to the internal market selling products in Russia. Members of the intergovernmental commission agreed in principle with Singapore upon entry of Changi that owns the Singapore Airport, one of the best airports in the world, on the management board of the Vladivostok airport.

Is there positive dynamics of foreign investments in the Far East given the general capital outflow from the country?

In general, investments in the Russian industry are declining and their structure changes with the increased share of investments in the agro-industrial sector and production of value added goods. From this point of view, the Far East is very attractive for investors. But this requires foreign investments to be focused mainly on exports, as the scale of the consumer base is limited with only 6 million people living here. However, the logistics potential of the region is huge. Vladivostok can serve to take the load off China's congested ports. Economic viability of the Northern Sea Route is being considered, while implementation of projects for ensuring supplies via the main Trans-Siberian Railroad is continued. Moreover, investment growth will be spurred by the creation of the priority development territories designed with a view to the advanced experience of our partners in Asia.

"In general, investments in the Russian industry are declining and their structure changes with the increased share of investments in the agro-industrial sector and production of value added goods"

Eastern Perspective

The export potential of the Russian small and medium-sized business at APEC markets makes experts build far-reaching plans for conquering the global space. But the share of such companies in the country's total volume does not even come to one per cent. Viktor Ermakov, Director General of the Russian Agency for Small and Medium Business Support told the Strategy Journal about barriers and prospects of the export business.

Under the Microscope

The global economy is currently facing the problem of supporting sustainable economic growth, creating workplaces and ensuring self-employment. Small and medium-sized businesses are the basis and driving force of any developed economy and an instrument to boost competitiveness, access global markets and integrate into global production chains. Trying to access global markets and find their own niche entrepreneurs have to overcome external and internal barriers associated with the lack of information on business possibilities, potential business partners, market requirements, customs procedures, as well as their own limited resources.

There are 0.4 per cent of small and medium-sized export businesses of all companies operating in Russia. They generate around 0.8 per cent of the export sales. Thus,

Business Speaking Out

The first place among the barriers to export activities is given to the lack of information on the possibilities and requirements of foreign markets. Financial institutes also consider this problem to be of primary importance. The second role is played by cash flow scarcity for the start-up and running of export activities. Then there is shortage of information on potential partners and lack of product certificates complying with international standards. Another barrier mentioned by businesses was insecurity of intellectual property and lack of skilled workers.

Information supplied by the Russian Agency for Export Credit and Investment Insurance

Turnover of commodities between Russia and non-CIS countries in January-July 2015:
China — USD36 billion,
Germany — USD27.3 billion,
the Netherlands – USD27.2 billion,
Italy – USD19.6 billion
and Turkey — USD14.4 billion

the share of small and medium-sized businesses in the overall exports of the OECD member states constitutes up to 25–35 per cent depending on the sector, while the SME input to exports in developing economies is even higher: around 40 per cent in Korea, over 50 per cent in China and almost 40 per cent in East Asia. Ensuring competitiveness of the SME in the global market is one of the top priorities of the economic policy pursued by any state both in the field of antitrust regulation and selective support. Assistance to export-oriented small and medium-sized businesses lies within the scope of competence of the Department of Small and Medium Enterprises and Competition of the Ministry of Economic Development of the Russian Federation and is extensively pursued by it as part of a state program.

The Small in the Large

Analyzing the situation you begin to understand that out of all small and medium-sized export enterprises in Russia only a meager number are operating to have a major impact on the development of the country's export potential. Many supplies are carried out on a one-time basis or in comparatively small batches in view of insufficient financial resources for growth. Around one per cent of Russian small and medium enterprises have potential for successful export activities today. But this number can grow if respective support is provided by the state. SME export prospects emerge in raw materials processing sector: mineral fertilizers, chemical production, petrochemistry and timber processing. Huge growth possibilities can be concentrated in food production, agriculture, machine engineering and metallurgy. There also remains potential in such spheres as telecommunications, satellite communication, satellite navigation and positioning services, earth remote sensing information processing products, IT, software, security and diagnostics systems, laser systems and equipment for medical purposes, intellectual systems, creation and production of synthetic super-hard materials and microelectronics.

As for state-of-the-art scientific and technological fields, these include nanotechnologies and alternative sources of energy. Here Russia is in similar start-up conditions as other countries and with government support small and medium enterprises will be able to reach the cutting edge level in this sector. Speaking about geographical priorities of export SME development in Russia, markets where non-energy goods and products can be in demand shall be considered in the first place. A study by the All-Russian Academy of Foreign Trade and the All-Russian Market Research Institute suggests that such narrow fields as production of steel pipes, mixed fertilizers and lumber have high potential for consolidating market positions to ensure global competitiveness. At the regional level these include gasoline, rolled non-ferrous metals, petrochemicals, wood boards, packing paper and cardboard, civil aerotechnics, specialized vessels, energy power engineering equipment, vegetable oils, flour, corn, feedstuff, fish and seafood.

Attractive Asia

Top-priority markets for Russian small and medium-sized businesses are East, South and Southeast Asia spanning China, Korea, Japan, Vietnam, Indonesia and Singapore.

Small and medium-sized businesses in all APEC economies amount to
around 90%
of all companies and employ
from 32 to 84 per cent
of labor forces, but at the same time account for
only about 30 per cent
of exports.

Thus, Russian prospects of increasing exports to East Asia are associated with the region's considerably growing need for industrial commodities, semi-finished products and food, as well as its geographic proximity as Russia has common land and sea boarders with almost all of the countries. Besides, there is high-tech exports growth potential in sectors in which Russia offers highly competitive solutions: nuclear sector, armament production and aircraft industry.

At the same time, Russia's chief partner in this field is China that is partially its geopolitical partner and competitor. As for South and Southeast Asia, Russia's key partners in civil and non-energy exports in the region are India, Thailand, Indonesia and Vietnam. Relatively large clients are Singapore and Malaysia. The countries in this region have demand for certain types of Russian raw commodities and first of all fertilizers, steel, non-ferrous metals and diamonds.

The region's location far from Russia's export ports is a constraining factor for the development of large-scale supplies of high-tonnage goods. The region also has good prospects for the development of high-tech exports for both civil and military application. Specifically, great interest is aroused by Russia's competence in the nuclear sector that has already been successfully realized in India.

"Export Elevator"

Challenges accompanying entry into international markets are overcome by small and medium-sized businesses with the help of one of the chief support instruments – the state program implemented by the Russian Ministry of Economic Development. It envisages two support mechanisms: subsidies allocated to businesses for a number of fields at the level of constituent entities of the Russian Federation and a wide range of services provided by regional infrastructural organizations.

Besides, the Ministry of Economic Development carries out a specialized program for the support and promotion of high-tech goods. Also, a whole range of development institutes operate at the federal level rendering services to assist export-oriented SME and enterprises that already run and develop their activities. These include Vnesheconombank, the Russian Export Center, EXIAR and Eximbank of Russia.

Other development institutes that also have export support programs are the Foundation for Assistance to Small Innovative Enterprises in Science and Technology, RVC, RUSNANO, Rostech and Skolkovo. Formation of a comprehensive "export elevator" system is completed with the set-up of the Russian Export Center to ensure support of Russia's start-up and already existing SME exporters offering competitive products sought after at international markets. However, the recently announced execution of a commercial treaty by 12 countries of the Trans-Pacific Partnership and creation of a respective free trade area pose a threat to future Russian export of various products.

This means that Russian exports to the TPP countries will become less competitive compared to the supplies within the block, since Russia is not a TPP member and TPP countries will trade with each other on privileged conditions.

In this situation it would be reasonable to consider the possibility of all-round stimulation and support by the state of export activities of small and medium-sized enterprises within the economic blocks and unions of the Asia Pacific Region (consisting of 58 countries and territories), of which Russia is a member and specifically the APEC, SCO and BRICS and with which it cooperates, as for example ASEAN.

Creation and launch of such an integrated information and consulting instrument gives Russia a unique opportunity both to minimize risks posed to Russian exports by the Trans-Pacific Partnership and especially to small and medium-sized businesses, and to take charge of the process bringing together APEC economies in a common system for the support and development of external economic activities of small and medium-sized enterprises.

Eurasia: the Meeting Point

Russia and China almost simultaneously intensified development of the Eurasian aspect of their foreign policy. Natalya Stapran, Director of the Russian Center for APEC Studies, RANEPA, told the Strategy Journal how this fitted in the One Belt, One Road concept.

In 2013, Russia entered the active phase of establishment of the Eurasian Economic Union, while China for the first time formulated a foreign policy concept dubbed "One Belt, One Road" that incorporates the Silk Road Economic Belt directly affecting Russia's interests in Central Asia.

For Russia the EEU is the key integration mechanism in the post-Soviet territory. For China One Belt, One Road is an ideology concept that will navigate the political and economic agenda of the next and subsequent five-year periods. The Chinese initiative addresses several tasks at once: internal (development of central and western provinces) and external (expansion of trade, creation of the cross-border infrastructure, Yuan promotion as a payment unit and expansion of humanitarian relations).

This at once entailed comments on the conflict of the two countries' interests that should be expected in the nearest future. However, China immediately demonstrated understanding that it affects Russia's interests in the project concerning inter alia Central Asia, as well as that Russia is an equal partner in geopolitics and ensuring safety and security in the continent and therefore its interests should be taken into account to ensure success of the project.

It is also Russia's understanding that the Russian integration agenda and the Chinese initiative shall not compete, and Chinese investments in the region shall not change the rules and for this Russia has to ensure positive content of the Chinese initiatives and outline their institutional limits.

A bright illustration of such mutual understanding is a joint statement made by Russia and China on cooperation in the construction of the EEU and the Silk Road Economic Belt on May 8, 2015, as well as the memorandum on the set-up of a development and cooperation alliance of the Silk Road Economic Belt signed in September 2015.

The alliance is formed to coordinate activities of state, commercial and bank structures in the implementation of the Silk Road Economic Belt project.

On September 2, in the course of Vladimir Putin's visit to Beijing the state-owned Avtodor Company signed a memorandum of understanding with two largest Chinese companies specializing in construction and operation of highways — Shandong Toll Roads and China Civil Engineering Construction Corporation.

On September 3, Avtodor signed a memorandum of understanding with the China Development Bank. The parties agreed to implement a new high-speed motorway project – Western Europe-Western China International Transit Corridor. The road of over 8.4 thousand kilometers is expected to be completed by 2023 linking Europe with China. The Russian part of the road will constitute 2.3 thousand kilometers leading from Orenburg through Kazan and Moscow to Russia's border in Saint Petersburg.

As for infrastructure development, cooperation between Russia and China in Eurasia can be backed up by the construction of the so-called Eurasian corridors.

The most likely route of the Silk Road Economic Belt today will go through Kazakhstan, Kirghizia, Uzbekistan, Tajikistan, Turkmenistan, Iran, Iraq, Turkey, Bulgaria, Moldova, Ukraine, Russia, Belarus, Poland, Germany, Netherlands, Belgium, France, Switzerland and terminate in Italy.

Another up-and-coming project can be construction of the economic corridor between Mongolia and Russia that will make it possible to link the economic zone around the Bohai Gulf, as well as Beijing, Dalian and Tianjin with Eastern Europe. This corridor allows Russia to arrange new supplies of meat to the Russian market, which is especially important with the sanctions in effect. Mongolia gets a wonderful opportunity to supply goods to the Russian and Chinese markets without dues and quotas in future. In May 2015, Xi Jinping signed a series of infrastructural agreements for the total value of 25 billion US dollars with Belarus, Kazakhstan and Russia. These agreements aimed to develop high-speed railroads are part of the plan for the build-up of the China-Mongolia-Russia corridor. In July 2015, following the three-party meeting of presidents of Russia, Mongolia and China Alexey Ulyukaev, Russian Minister of Economic Development, signed on behalf of Russia a memorandum of understanding between these countries on the Russia-China-Mongolia economic corridor development program.

The most attractive project for the EEU countries is the New Eurasian Land Bridge. Investments channeled to Russia, Kazakhstan and Belarus allow the countries to improve the transport infrastructure that can also be used for cargo transportation among some EEU member states. The corridor represents a high speed trunk railway running through Russia, Kazakhstan, Belarus, Poland and Germany and connecting China with Western Europe. The first trial run of a train along the new rail track from China to Kazakhstan took place under this project in 2015. At this stage China holds consultations with customs departments of Kazakhstan, Poland and Russia in order to reduce the cost of cargo customs clearance.

Agenda of the Russian-Chinese relations also incorporates trade and economic cooperation in the context of the resolution of the Supreme Eurasian Economic Council on the launch of negotiations between the EEU and China to enter into the agreement on trade and economic cooperation. Such a strategy will back up integration within the Eurasian Economic Union, the EEU – EU interblock integration combined with the entry into an integration (investment or trade and economic) agreement with China.

At the same time the existing challenges associated with the joint Russian and Chinese Eurasian agenda

shall also be taken into account. Thus, China is more interested in the development of bilateral relations with individual members of the Eurasian Economic Union, which is confirmed by the already concluded agreements with Kazakhstan, Belarus and Armenia. Behind the scenes, Chinese experts call the EEU a barrier to fruitful cooperation often claiming the EEU to have been set up by Russia "against China" seeking to restrain China's bilateral trade and economic cooperation with Central Asia. At this stage China is obviously not eager to see the EEU change the rules that it has established with the EEU member-states on a bilateral basis. At the same time, Chinese experts tend to consider the EEU to be first of all the instrument of Russian politicians that act within the EEU as absolute hegemons and promote solely their own priorities, while allegedly blocking their partners' initiatives.

All this suggests that to avoid deviation from the positive agenda of cooperation between Russia and China in the Eurasian space internal consolidation of positions within the EEU shall be stimulated to ensure integration at both expert and interstate levels. It is especially important to fill the relations with specific projects, which requires systemizing information on bilateral projects of certain EEU members with China to highlight common agenda and identify sectoral priorities of multilateral cooperation.

At the same time, it is inexpedient for Russia to narrow the EEU-SREB pairing project down to the economic cooperation solely between the EEU and China (and all the more to Russia-China cooperation), it is important to go beyond the trade liberalization deal and involve not only China, but also other potential participants in this cooperation (India, Mongolia, Iran, Southeast Asia, etc.). Therefore, it can be appropriate to carry discussion over to a broader context employing, for example, the SCO, ASEAN or BRICS platforms.

TTIP: Russia out?

Initiatives to create a transatlantic free trade area were voiced as early as in the 1990s. To support such ideas a number of advisory structures were formed with the participation of Washington and Brussels in 1995–2007. What are the results of this cooperation today?

Businessmen and experts taking part in the Trans-Atlantic Business Dialogue, the Transatlantic Economic Partnership and the Transatlantic Economic Council have supported economic convergence of the EU and the USA suggesting specific formats for it. Finally, on February 12, 2013, relying on the recommendations of a group of high-ranking experts President of the United States Barack Obama stated that it was time to start negotiating a large-scale trade agreement with Europe. It is interesting that while Europeans published directives received by their delegation, the USA only voiced tasks and objectives faced by their negotiators without specifying many details. So far, 24 commissions have been working on various aspects of the agreement aiming to agree upon a uniform concept for each item.

US representatives repeatedly confessed in their statements that one of the key aspects of the Transatlantic Trade and Investment Partnership (TTIP) is addressing the problem of different norms and standards in the EU and the USA. Special focus is made by the White House on the safety standards and environmental compatibility of automobile transport, food standards regulating the use of the GMO, hormones and various types of fertilizers, promotion of the interests of American pharmaceutical companies that have to deal with the rigid system of European certification and verification of medication efficiency and at the same time often coming across instances of breach of their intellectual rights in Europe.

Negotiations on the formation of the Transatlantic Trade and Investment Partnership (TTIP) between the EU Council and the White House **began in June 2013**

Europe in its turn strives within TTIP towards facilitating access to the US market of state orders and lifting the ban on oil exports from the USA. This will enable Brussels to lower the level of energy dependence on Russia. Besides, the latter factor shall contribute to some reduction in energy prices, which is also highly favorable for the European economy.

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Another important aspect of TTIP is establishment of the investor-state dispute settlement mechanism (ISDS) — an international arbitration that allows corporations litigate directly against the state if the latter violates any TTIP norms. The TTIP initiators claim this will considerably accelerate the resolution of any disputes between foreign investors and countries they invest in and contribute to the legal safety of their business.

Specifically, the ISDS will allow to create a scheme for obtaining a compensation not only for expropriation or nationalization of business, but also if new national laws and regulations are introduced that prevent running of business by foreign investors in any area or reduce its rate of return.

Thus, if national authorities adopt another law against tobacco smoking, tobacco companies will be able to claim compensation from such authorities using the ISDS instruments.

Development of TTIP is a process that takes considerable time and effort. Thus, task forces need to work out proposals for unification of a large number of standards in various areas, which requires participation of many experts, creation of databases and detailed negotiation of numerous aspects. Besides, the EU member states do not share a consolidated position at negotiations: many of them offer additional terms and demand to exclude various business areas from the future TTIP Agreement.

For example, Bulgaria required raising at TTIP negotiations the issue of visa regulation between Brussels and Washington that currently does not envisage possibilities of a visa-free entry to the USA for citizens of Bulgaria and a range of other countries – new EU members. France insists on separate negotiations on audio and video-services.

France and Germany demanded to include the rules on "the Protected Designation of Origin" in the TTIP

Text: NP EU-Russia Industrialists' Round Table (www.irt-rus.org)

Analysts from the European Commission believe that removal of non-tariff barriers will ensure a major input of

around 80 per cent

to the additional growth of Europe's GDP

by 0.5 per cent by 2027,

which will become possible due to TTIP

Agreement that will protect producers of such regional products as Parmesan cheese, Nuremberg sausages, etc. Besides, representatives of the leading EU nations persistently speak out for protecting their market against GMO products and meat of animals grown using hormones. Specifically, French trade minister Nicole Bricq said as early as in February 2013 that Paris would block TTIP if interests of France in agriculture were not observed. At the same time, the so-called "new Europeans" do not voice any counter arguments against this issue. A separate stumbling block is the regulation of financial markets that will hardly be included in the agreement. It is associated with the Dodd-Frank Act adopted in the USA in 2010 which Washington is not prepared to amend in favor of its European partners.

TTIP is negotiated behind closed doors, while some parts of the draft agreement were disclosed by mass media solely due to data leak and caused great concern among the EU residents. A European initiative group even created a website: stop-ttip.org that collected over 3,280 thousand signatures against the Partnership as at November 11. Europeans are most of all concerned about the closed nature of negotiations and lack of information on the participation of transnational corporations in them, threat to national sovereignty posed by the ISDS that actually deprives the state of the possibility to regulate the activities of large corporations at its own discretion. They are also worried about the inevitable change in the European labor legislation that will result in the reduction of employees' rights, as the US labor legislation is considerably less socially oriented than the European one. Besides, the TTIP opponents claim that after the Partnership is created the quality of food products, drugs, cosmetics and medical services will deteriorate, as standards for such products in the USA are much lower than in the EU.

Those who are against TTIP also conduct their own economic studies that show that the agreement on the Partnership will lead primarily to negative consequences within the next 10 years and first of all to worse living conditions for Europeans, declining state income, loss of European net exports. Initially execution of the TTIP agreement was planned for the end of 2014, then it was postponed until 2015.

Now, the parties are less optimistic and seek to do it before the US presidential election that will take place in November 2016. However, to make the agreement enter into effect it should be approved by all the EU member states represented in the EU Council of Ministers and separately by the European Parliament. At the same time, the constitution of a number of the EU member states and specifically France provides for such approval to be ratified by the national parliament.

The agreement also has to be ratified by both chambers of the Congress. So there can be a long time between the execution of the agreement on TTIP and the beginning the Partnership's actual work. At the same time, President Obama's administration is extremely interested in such geopolitical success and with almost full support from Germany can ensure the execution of the agreement within a short timeframe and most likely before the American presidential election.

To accelerate the process US negotiators will agree to some concessions to their European colleagues, but they will hardly agree to include articles on financial

Safety Restrictions

TTIP is designed to relieve business of any possible constraining barriers. While the US and EU tariff rates fixed on a bilateral basis are rather low constituting 3.5 and 5.2 per cent respectively, there exists a huge number of rules and regulations that cause considerable difficulties to the mutual access to the American and European markets of goods and services. This is especially crucial for the American business as the European market is more regulated with a high level of consumer protection. Many goods and production processes in the EU require confirmation of their safety by research, while in the USA this is mostly not mandatory. Thus, Europe has still not approved shale gas production as safety of the hydraulic fracturing method has not been registered in documents by European researchers, whereas the USA on the other hand takes the lead in shale gas recovery. Therefore, the parties are assumed to work out common environmental standards and it is Brussels that will have to come to terms with the import of some products produced using the GMO and pesticides.

markets regulation and opening of the US oil market to European consumers in the TTIP agreement.

Although Cecilia Malmström heading the European team of negotiators repeatedly said that "there was no hurry for Europe" and that only the core of the agreement that is very extensive and contains many articles would be ready by the end of Obama's presidential term. The complicated relations between the EU and Russia spur Brussels in every possible way to sign this agreement as soon as possible. Thus, today, conclusion of the TTIP agreement is first of all a political step. Even if it is not ratified by all the participants, Washington and Brussels will present its execution as an important political victory that makes it possible to bring the EU and the USA closer to each other. At the same time, Obama is seen as a leader who has formed two free trade areas in the Pacific and Atlantic regions for his term in office, and who actually established economic tariffless Pax Americana with uniform standards and economic legislation. Surely, the American leader will thus maintain and expand the US dollar zone that China and Russia attempted to attack.

For Russia the introduction of TTIP will have negative economic impact, although it will become visible some time later. Thus, it is obvious that the USA and the EU will work out uniform standards for products that will be imposed upon third-party exporters as well. At the same time, it will be first of all more difficult for Moscow to offer its own standards even to its old partners that will be guided by the joint American and European standards. Second, Russia will be forced to reconsider its relations with European suppliers of goods that in the course of time will switch to new standards. Taking into account the fact that a number of East European countries will use the opportunity to reduce control of product quality, this will provoke another phase of trade wars between Moscow and Brussels associated with the ban on import of many types of produce and primarily agricultural products to the Russian Federation that will not meet Russian sanitary requirements. Thus, even if sanctions are lifted on both sides the Russian market can appear to be closed to many European products and de-facto the war of sanctions will continue. Besides, the US commodity turnover with China (USD 590 billion), India (USD67 billion), Brazil (USD73 billion) and South Africa (USD14.5 billion) many times exceeds Russia's commodity turnover with these countries (China – USD 88.1 billion; India – USD 9.5 billion; Brazil – USD 5.7 billion; South Africa – USD 1 billion). Naturally, Russia's partners within the BRICS will also above all try to gain access to the renewed US-EU market with its standards and only then think of the economic cooperation with Russia. However, abolished tariffs and unified standards will enable US corporations to oust the BRICS members, including Russia, from many niches of the European trade. For example, Russia will be finally forced out of the European mineral fertilizers' market. In future, shale gas recovery can also be launched in Eastern Europe, which is actively lobbied by American companies that are leaders in this field. This will result in the decline in the Russian energy prices and reduced supplies to the EU.

Forecasts published by the Center for Economic Policy Research on assignment of the EU Council suggest that introduction of TTIP will result **in the growth** of European exports **by 225 billion euros (5.11 per cent)** and US exports – **by 200 billion euros (4.74 per cent)** by 2027 according to the best case scenario

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It is obvious that if the TTIP mechanism comes into effect, Moscow will have to accord its trade rules and standards with the western ones, which will not only mean the USA's political victory, but can also force Russia to introduce similar ISDS institutes that will help transnational corporations "play by their own rules" in the territory of the Russian Federation. It appears to be unlikely that the TTIP agreement actually comes into force by the end of the next year and what is most important that it can so effectively impact the US and European economies as expected by its initiators. TTIP will most likely bring to light a large number of unresolved conflicts between the USA and the EU which Russia will be able to use to its advantage.

But the major "merit" of the partnership advocates will be preservation of the dollar zone and strengthening of the US political influence in Europe.

Text: Vitaliy Shmelkov

Maintaining Partnership

First Chairman of the Board of the Germany-Russia Economic Alliance (DRWA) Vitaly Shmelkov analyzes the prospects of Russia's cooperation with its oldest partner – Germany. In this article you will find information on the difficulties of such cooperation and the way partnership will develop further.

After the Second World War the major economic partners of the USSR were the Federal Republic of Germany and the German Democratic Republic with their share in the USSR's total commodity turnover coming close to 20 per cent. The area of mutual economic interests was under constant control of the German political elite and its European allies. In the 1970s during the Cold War it was with Western Germany that the USSR started its broad economic cooperation with the capitalist world. An impressive infrastructure created for natural gas production and transportation via main pipelines to Europe in the context of such cooperation is still in use today.

In the 1990s along with the enthusiasm demonstrated by German business and political circles with respect to the Russian market liberalization bilateral relations despite the general growth trend failed to continue sustainable development as it was expected. This had a number of reasons, including transformation processes in the Russian economy accompanied by the breakdown of the Russian industry and the actual termination of production cooperation with the former GDR, almost complete absence in Russia of contemporary legislation and generally recognized civilized instruments of work in market conditions. The "wild capitalism" stage in Russia of the 1990s was followed by the development of economic relations between Russia and Germany. An important factor of formation of the contemporary image of bilateral economic relations was the shift of the political power in Russia in 2000 and the respective new policy aimed at sovereignization of economics, including the recovery of national industry and minimizing of its dependence on foreign loans and financial assistance.

According to the Austrian Institute of Economic Research (WIFO), **over two million** jobs are at risk today with total losses **reaching 100 billion euros** because of the sanctions imposed by the EU. Germany estimates such losses at **450,000 workplaces and 27 million euros**

It is in these new market conditions for Russia that the structure of mutual commodity turnover with Germany was budding supplementing traditional commodity turnover with financial and investment cooperation and introduction of market instruments. Over this period Russia almost completely repaid its foreign debt reaching over 150 billion to the Paris and London Clubs that it inherited from the USSR with one of the key creditors being Germany.

In the end, all this paved the way for a new stage of cooperation between Russia and Germany. The first visit of the Russian president to Germany and his negotiations with the German Federal Chancellor involving recognized representatives of the Russian and German business resulted in the approval of the mutually beneficial framework conditions of economic partnership and its political tools that were in use for over 10 years to the benefit of both countries.

During this decade mutual trade grew much more intensively than German trade with other countries, whereas Russia moved from the 20th to the 12th position as Germany's trade partner in exports and from the 16th to the 10th place in imports.

The structure of bilateral trade corresponded to the actual level of Russia's economic development and the parties' mutual needs. The prevailing share of Russian imports is represented by cars and equipment making up over 50 per cent. Unfortunately, the structure of bilateral commodity turnover was not improved by saturating Russian exports with value added goods. On the contrary, it deteriorated in economic sense with the increased share of energy and resources supplies to Germany.

Assessing the present situation in the Russian-German economic relations one should do justice to the European and German political elite that assumed full responsibility for the destructive consequences of its anti-Russian measures. A motive for such steps taken by national and European politicians is based largely on the prevailing in the EU impunity for the erroneous measures, as well as "democratic" irresponsibility for harsh consequences for the business of their own electorate. On the other hand, the US pressure aiming to slow down economic growth in Russia with the help of sanctions plays a huge role in the European politics, which directly affected the bilateral commodity turnover. Both countries are interested in finding appropriate solutions and taking necessary steps to unlock the rich potential of bilateral partnership.

Vitaly Shmelkov,
First Chairman of the Board of the Germany-Russia Economic Alliance

From 2001 until 2008 bilateral commodity turnover developed rather extensively and reached its record high of 67.3 billion US dollars according to the Federal Customs Service of Russia. In the crisis year of 2009 it dropped by 40 per cent and amounted to 39.9 billion US dollars according to the Russian statistics. At the same time Germany's GDP decreased by 4.6 per cent. A certain offset of the commodity turnover dynamics began in 2010 when it started growing by 30 per cent up to 51.8 billion US dollars in tune with the German GDP that grew by 3.4 per cent. If the initial period of decline can be explained by the aftermath of the financial crisis and the booming interest of the German business in China, the crucial dwindling of the commodity turnover in the recent years is obviously related to the policy pursued by Germany and the EU, and specifically sanctions imposed by the EU against Russia and the latter's counter measures, speculations "for a fall" in the global energy market and devaluation of the Russian ruble.

Often formal sanctions are aggravated by closed regulations and instructions by German controlling and regulating authorities that actually paralyze the business technology. Relations between the EU and Russia became strained again in the gas sector, inter alia, because of the latter's refusal to ratify the European Energy Charter and the Transit Protocol in their present version, political opposition of the EU to the construction of the South Stream of Russian gas pipeline to Europe, as well as recurrent problems with the transit of Russian gas through the territory of Ukraine.

Introduction of sanctions by the EU against Russia has become a real and painful step towards destabilization of European trade and caused multibillion losses to European and German businessmen and first of all firms exporting goods to Russia. Further decline in the Russian-German commodity turnover by 37.1 per cent was registered in the first quarter of 2015. Russian exports fell by 32.1 per cent, while German exports to Russia dropped by 43.1 per cent. Obviously, we will see an even more depressing situation by the end of the year. Germany and the EU are also going through difficult times. It is related to the mitigation of the crisis consequences, disastrous budget discipline of many EU members, problems with Greece and refugees. The international situation is characterized by the increasingly emerging signs of a cold war which inevitably turn economic ties into a political issue. On the other hand, there is no alternative to the new architecture of the European economic cooperation and this compels to look for ways of building sustainable relations for own benefit cutting down the area of distorting American influence. Reality suggests

Experts claim that along with the German exports to Russia that fell **by 18 per cent** following the Ukrainian crisis in 2014 and introduction of sanctions, its exports to **Ukraine (by 33 per cent), Kazakhstan (by 20 per cent) and Belarus (by 21 per cent)** also declined

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that substantial improvement of relations with Russia is not on top of the current German agenda. Anti-Russian sentiments or at least reserved political attitude in Germany will remain a serious factor of influence on bilateral economic relations in the nearest future. In this period they will experience strong pressure exerted by the German political elite via already established restricting instruments.

Russia and its national participants of the economic cooperation with Germany and Europe should not expect that sanctions will be lifted in the nearest time. Probably the situation will persist until new figures free from the block mentality appear in the political arena. Ensuring a non-confrontational atmosphere for economic cooperation is an important item on agenda. Russian energy supplies to Germany will be effected in line with the contracts in force, which will remain a stabilizing factor of commodity turnover. Comprehensive transition to spot energy prices advocated by Brussels is hardly likely in the nearest future. Automobiles and equipment will remain the key items imported by Germany to Russia adjusted to actual imports phase-out. Localization of German production facilities in Russia can become visible.

Innovative and high-tech goods and services can become an important new segment in the bilateral commodity turnover. Russian market players need to fundamentally improve protection of their intellectual property in Europe and form an efficient commodity distribution infrastructure in the countries of their presence. In the financial sphere Russia will still have to raise funds predominantly as bonds in the internal market and global financial platforms resorting to its relations with politically unaffected financial experts in the west. In the coming years, sanctions and distortion of traditional commodity turnover will result in the need to form a new architecture of economic cooperation in contemporary realities. Apart from the search for and establishment of new business contacts the most important problem will be recovery of trust between the participants of foreign economic activities on both sides. Creating a new architecture of bilateral cooperation will depend on the outcome of negotiations, as well as forthcoming execution of an agreement with the USA on the set-up of the Transatlantic Trade and Investment Partnership (TTIP).

What will Russian and German politicians undertake in the existing situation? Experts believe that Russia should resume its foreign economic relations with Germany (and the EU countries) in the fields of mutual interest not affected by sanctions, as well as in international humanitarian areas. Space exploration, civil aviation, medicine, innovations, transport infrastructure, disaster mitigation, humanitarian and peace operations can become future spheres of cooperation. It could also be a good idea to study conditions of sanctions application and their implementation technologies used in Germany and other EU countries, as well as elaborate respective practical recommendations for Russian business participants of foreign economic activities.

Besides, a meaningful dialogue with German businesses both in Russia and on German platforms shall be resumed, it shall trigger joint search of ways to overcome sanction barriers, ensure freedom of business based on the WTO principles and maintain existing confidence and ethical principles in bilateral cooperation. And to facilitate understanding by German partners of new approaches to the Russian economy one should ensure their efficient informing of Russian imports phase-out programs, relevant federal strategic documents, federal targeted programs and important regional programs in Russia.

Partner Number One

For many years from the outset of foreign economic activities in Russia Germany has been its economic partner number one leaving other countries far behind. From the first decade after 2000 Germany ceded its leadership in trade with Russia to China and then moved down to the third place in this rating. This trend is also proved by the fact that sustainable growth of mutual commodity turnover was interrupted and characterized by the following figures (decline in billion euros): 75 in 2011; 80, 87 in 2012; 76, 52 in 2013 and 67.7 in 2014.

Lesson Unlearned

Relations between Russia and Europe have lasted for several hundred years and have always been complicated. Russia's role changed in different periods of time and it turned from an ally into an enemy and vice versa. At the same time, it has always been said to be the closest neighbor with an "unpredictable character". Candidate of political sciences Natalya Maslakova-Klauberg (Diplomatic Academy of the Ministry of Foreign Affairs) tells how this story evolved.

The period from 2014 until 2016 can be definitely called a challenge or a "History exam" in relations between Russia and Europe. In the mid-1940s and all the more in the 1990s everyone thought that the most difficult period in these relations that included the two most destructive wars and one cold war was far behind.

Today the world's history is like a lady "growing decrepit" that continues "to bend fingers" expecting the humankind to learn from history and make respective conclusions. It points the finger at the symbolic dates of the global history as if pushing to make the right choice.

In 2014, the world celebrated the 100th anniversary of the beginning of the First World War and this day was marked with a crisis in relations between Russia and Europe because of the different positions on the Ukrainian issue and adjoining of Crimea to Russia. Many started speaking seriously about the outbreak of a new cold war.

In 2015, 200 years passed after the Congress of Vienna, the first international forum in the world's history that laid the foundation for the new global order after the Napoleonic wars dubbed the Vienna System of International Relations or the Metternich System as it is called in Europe.

In the same 2015, the world celebrated the 70th anniversary of the end of World War II that engrossed 62 states (80 per cent of the global population) with the total lives claimed reaching 60–65 million people. However, we commemorated this event in different ways and separately as if every state had its own victory and its own truth.

In 2016, there will be another remarkable date — the 70th anniversary of the beginning of the cold war that divided the world into two conflicting blocks: the socialist camp with the USSR at its head and the capitalist world headed by the USA. This war drew the humankind into a dangerous political and military standoff that put the world on the edge of a new violent confrontation. Was Georg Hegel, a German philosopher, really right saying that "history teaches that it taught us nothing"?

Russia and Europe have gone a challenging path together throughout the history

Russia and Europe have gone a challenging path together throughout the history adjusting to each other and the political realities, sometimes coming to terms with the peculiar national characters and carrying together the increasingly huge burden of others' political mistakes.

Russia's first acquaintance with Europe was during military campaigns led by the princes of the old Russian state to the Byzantine Empire in the early 10th century (years 907 and 911) that resulted in commercial treaties concluded with Byzantine including military and political articles. In 988, Kievan Rus was baptized seeking to become a political and spiritual ally of the world's powerful Christian state – the Byzantine Empire that united many European countries of the time. Yaroslav the Wise, the son of Grand Prince Vladimir Svyatoslavovich who baptized Russia, won Europe's recognition with the dynasty's pragmatic policy. His daughters became members of the European royal houses: Anna became Queen of France after she married Henry I, Elizaveta married Harald the Stern and became Queen of Norway, while Anastasia became Queen of Hungary having married Andras I.

In 2014, the world celebrated the 100th anniversary from the beginning of the First World War this day was marked by a crisis in relations between Russia and Europe

However, Russia and Europe were to encounter the first relationship crisis represented by spiritual schism that still remains insurmountable.

In 1054, the Universal Christian Church split into two – the Roman Catholic and the Orthodox churches, with each of them asserting the truth of faith as a successor to the Byzantine legacy.

In the 16th century, when Russia was ruled by the Prince of Moscow Vasily III a national spiritual idea was formed called "Moscow the Third Rome" that actually highlighted Russia's desire to play the leading role in the Christian world.

The Roman Catholic Church continued adhering to its "apostolical status" emphasizing that the first Roman bishop was Supreme Apostle Peter. For many hundreds of years the Vatican pursued a policy aimed at the formation of unions and spread of proselytism. Its advocates were various knightly orders, such as the Teutonic, Livonian and Malta Orders. At the time the new centralized Moscow state (Muscovia) was formed in the 15th century Europe got to know Russia for the second time. Austrian diplomat, writer and historian Baron Sigismund von Herberstein described his stay in Moscow in the capacity of a member of the diplomatic mission in the "Notes on Muscovite Affairs" published in 1556 and even drew the map of the Russian capital. He paid two visits to Russia as a mediator in peace negotiations between Muscovia and the Grand Duchy of Lithuania. Peace negotiations were aimed to force Vasily III agree to a joint campaign against Sultan Suleyman the Magnificent, whose expansionist ambitions extended in those times to Vienna and Rome. Muscovia was treated by Europeans as a commercial partner and a political ally of Europe. But this period did not last very long. Trade diplomacy was nonetheless replaced by the military one. The period

of rule of Ivan IV (the Terrible) was the time of the first confrontation of the Muscovite state with the European countries that turned it from an ally into a political enemy.

During the Livonian War of 1558 the first anti-Russian military and political alliance was formed of the Livonian Order, the Grand Duchy of Lithuania, Poland and Sweden. This time Russia was defeated and the Polish-Lithuanian Commonwealth appeared at its border. It should be said that Tsar Ivan the Terrible supported the expansion of commercial relations with Europe and first of all with England. In 1553, Sir Richard Chancellor discovered the Northern Sea Route linking England with Russia. These commercial relations resulted in the opening of the first trade mission– the British Company in Moscow in 1556 and the Moscow Trade Company in London. People then said that "the tsar conferred a court on the English in Moscow". England supplied arms, gun powder, lead, cloth and tinware to Russia, while Russia exported timber, ropes, leather, fur, etc. However, in 1649, Tsar Alexey Mikhailovich Romanov ordered to break commercial relations with England. A historic reminder of these events in Moscow is the Old English Court in Varvarka street. Three hundred years of Romanov rule can be described as the "golden age" in the history of Russia's relations with Europe. The Russian state became part of the European family, was tied to it with dynastic marriages and first of all with German principalities that formed the core of the Holy Roman Empire of the German Nation until 1806. The Romanov Dynasty is usually divided into two branches on the All-Russian throne – the direct family line that ceased to exist in 1762 after the death of Empress Elisabeth of Russia and the Holstein-Gottorp-Romanov line that began with Peter III and ended with the last Russian emperor Nicholas II.

European countries got acquainted with new Tsar Peter's Russia with the Great Embassy of Peter the Great to Europe in 1697–1698. He visited Holland, England, Denmark, German Principalities, Austria and Poland. Peter guided Russia towards the economic, scientific, cultural and commercial contingence with Europe. Raised in the Foreign Quarter, Peter became the advocate of Russia's rising to the European level.

In 2016, the world will mark the 70th anniversary of the beginning of the Cold War that divided the world into two conflicting blocks

He replaced its original old style with the "European dress" fitting the system of state power in the European patterns. But he did not change the Russian spirit or soul, which does him credit. In 1721, after he won the Battle of Poltava and opened the gates to the North Sea for Russia, he turned Russia into an empire and showed himself to be a strong political player in the European continent. The names of Russian emperors and empresses from the Romanov dynasty on the All-Russian throne (Catherine II, Paul I, Alexander I, Alexander II, Alexander III and Nicholas II) are part of the general European history of the 18-20th centuries. Promoting its national interests Russia surely remained a large political player whose stance determined the political balance in Europe. At the end of the 19th century, Russia already dared say: "While the Russian tsar is fishing, Europe can wait".

The Congress of Vienna of 1815 brought Imperial Russia to the new political level having determined its place among the leading European powers, the so-called ruler of European destinies along with England, Austria and Prussia. One can say that this was the peak of the Russian-European relations in which Russia undoubtedly contributed to the formation of the new global order of the 19th century. Collapse of Imperial Russia after the October Revolution of 1917 when one of the world's largest powers disappeared from the political map resulted in the establishment of a new political system dubbed the Versailles-Washington system with the predetermined role of Soviet Russia as Europe's sworn political enemy. Asserting its right to existence and striving for diplomatic recognition the Soviet country looked for a new trend in the political cooperation with European countries. Only a short period at the end of World War II became a friendly time for Soviet Russia as the USA and Europe were forced to collaborate in struggling against the powerful army of Nazi Germany.

The 20th century was not merciful to Russia having revamped its government system and changed its size in the world's geographical map. Going a long way from an empire to the allied state and then from Gorbachev and Eltsin's to Putin's Russia the same history as an "old lady growing decrepit" showed mercy to it. At the beginning of the 21st century it gave Russia a historic chance to take up its traditional place in Europe's politics as a strong European state, ally and partner capable of lending its shoulder to Europe in a difficult historic period as it was the case during the war against Napoleon in 1812 and the slashing victory over Nazi Germany in 1945. It can only be stated that today the ball is on the European side of the field.

The words of Russian philosopher Ivan Ilyin in his work entitled "What Dismemberment of Russia Entails for the World" in 1950 are still relevant today: "Russia is neither human dust, nor chaos. It is first of all a great nation that has not lost its power or given up its vocation. This nation is hungry for a free regime, peaceful labor, property and national culture. It is too early to bury it! A historic hour will come rising from an imaginary coffin and claim its rights back!"

As Vladimir Putin said in his address to the Federal Assembly in 2015: "The international community should have learned from the past lessons. The historical parallels in this case are undeniable".

What will 2016 bring us? Only one thing remains certain – it will test the knowledge of history of the entire global community. We can only hope that the choice will be made against a new cold war.