



# BRIDGE

Russian business guide

## Vladimir Putin

- *What do you love most of all?*
- *Russia!*

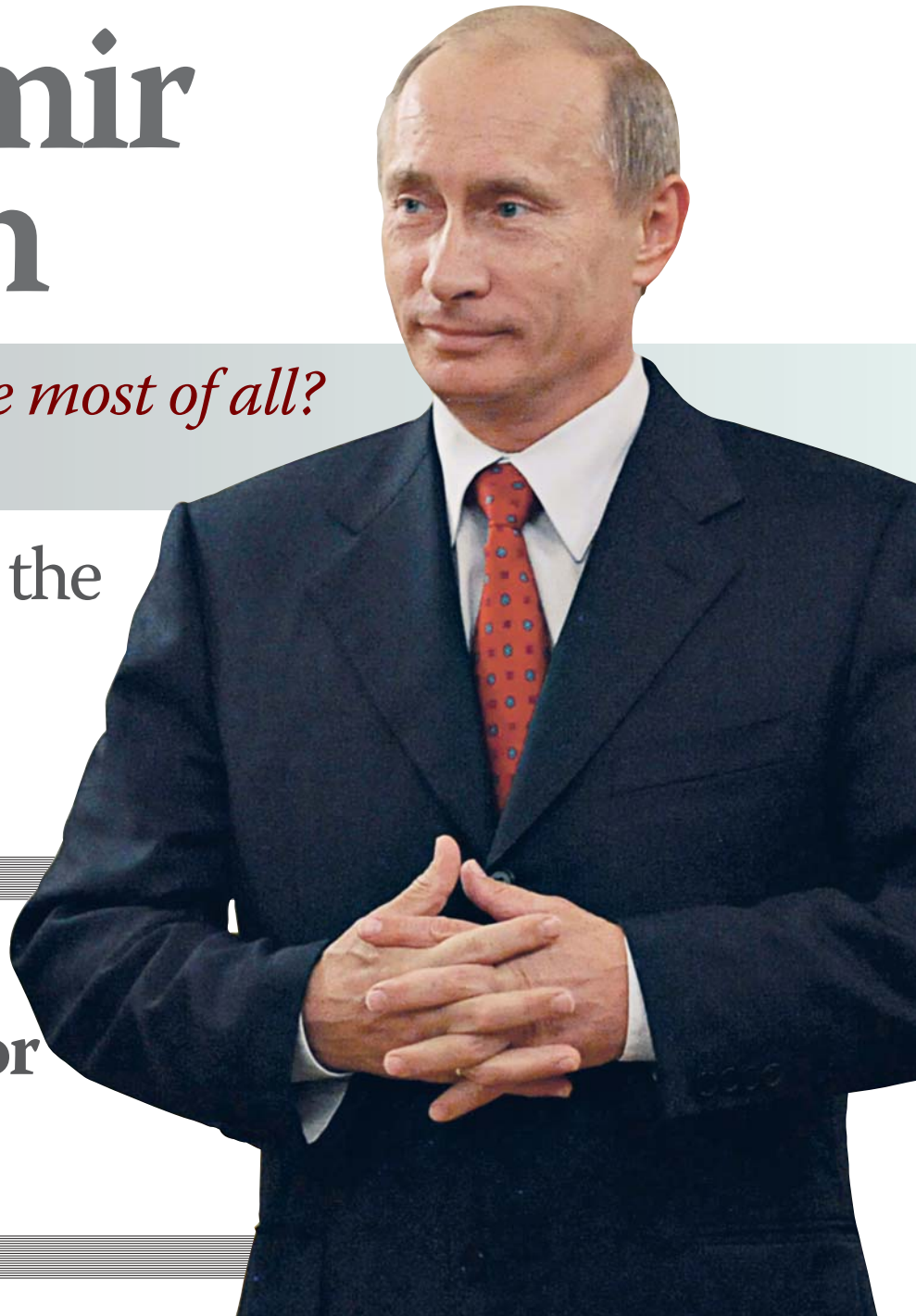
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**and more:**

**Sergey Glazyev:** We need to change our monetary policy in principle.

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14, KRASNOPRESNENSKAYA NAB.  
MOSCOW, RUSSIA, 123100  
TEL.: +7 (499) 795-37-99, 795-39-46  
FAX: +7 (495) 605-72-10  
E-MAIL: [CENTR@EXPOCENTR.RU](mailto:CENTR@EXPOCENTR.RU)

**50**  
YEARS

# BRIDGE

# Dear readers!

**Bridge between Russian and International Business** – Russian Business Guide from RF CCI, news and analysis magazine

**Address:** 109012, Moscow, 6, Ilyinka Street  
Phone: (495) 620 0344, (495) 620 0454  
e-mail: rbg@tpprf.ru

**Founded by:** the Chamber of Commerce and Industry of Russia, Expocentre CJSC

**Chairman of the editorial board:**  
Yevgeny Primakov, President of the Chamber of Commerce and Industry of Russia

**Publisher:** CCI-Inform LLC

**Chairman of the board of directors:**  
Boris Pastukhov

**CEO – editor-in-chief of the United editorial house CCI-INFORM LLC:**  
Nikolay Reshetnyak

**Editors:** V.Bykov, I.Korotin, V.Makarov, A.Rybakov, A.Shkirando.

**Executive editor:** L.Agafonov

**Designed by:** N.Petrov

**Makeup, prepress and proofs:**  
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Here is the new issue of the Bridge between Russian and International Business Magazine. The world is gripped by the global financial crisis, therefore we couldn't but deal with the most urgent problem of the time – how to survive in the unfavourable economic conditions? Among those who tries to find an answer to this question are the Russian President Dmitry Medvedev, chairman of the Government of the RF Vladimir Putin, participants of the meeting at the RF Chamber of Commerce and Industry held by the Chamber's head Yevgeny Primakov, and one of the country's leading economists Sergey Glazyev. You can find their opinions on the pages of our Magazine.

We believe that only joint efforts of the public authorities and the business community will allow getting over the crisis period with minimal losses for the economy and the population. It's important that both the government and businesspeople cooperating with RF CCI share this opinion. "We will overcome all these difficulties if we feel our responsibility and purposefully solve those complicated issues our economy and the social sphere of the Russian Federation are facing", says Vladimir Putin.

This issue of our Magazine also deals with such interesting themes as international industrial cooperation, trade economic relationships between CIS member states, and world experience in creating innovations. We will call upon Johann Kausl, commercial advisor to the Embassy of Austria in Moscow, and tell about the new birth of the Great Silk Way that connected Europe with Asia through Russia many centuries ago.

Happy New Year, dear readers!

We wish you joy and good luck in the year 2009!

May the crisis not touch on your business

and the cooperation with Russia will help you with it!

**Nikolay Reshetnyak,**  
editor-in-chief of the United editorial house  
at the Chamber of Commerce and Industry of Russia



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In early December, Chairman of the RF Government Vladimir Putin held a traditional meeting with Russians in a live television broadcast. Leader of the United Russia party answered questions received from TV viewers, as well as via Internet and SMS in the course of almost four hours. Our Magazine makes you acquainted with some of his pronouncements concerned with global and Russian economic problems.

A photograph of Vladimir Putin sitting at a dark, reflective desk. He is wearing a dark suit, a light blue shirt, and a striped tie. He has a watch on his left wrist. Two microphones are positioned in front of him. The background shows a portion of the Russian flag (white, blue, and red) on the left and a light-colored wall with a gold trim on the right.

# – What do you love most of all? – Russia!

**– You were appointed Prime Minister over six months ago. How do you feel in that office? And could you tell us about some of your achievements?**

– I am happy I got this chance to serve the people in this position. Yes, of course. In fact, the current events in the Russian economy are a result of the global financial crisis. Nobody needs to be told today – it is a fact – that the crisis began in the United States, whose financial and economic policy has

resulted in the crisis, which has spread to nearly all the leading economies. It has also reached Russia, we can feel it, but on the whole, our economic results in 2008 are positive even despite the negative effects of the global financial crisis. We expected the economic growth to be above 7%, or more precisely 7.5%. The annual growth rate will be around 7%, possibly 6.8% or 6.9%. This is good. What is particularly important for us is the results of our efforts in the social sphere. The increase in wages will be approximately 12.6%

and pensions slightly more than 12% – 25% in nominal figures. Industrial production growth will be nearly 5% (4.8%). As for agriculture, it posted a record-high growth over the past few years, 8.8%.

It is true that we have some problems with inflation. The target figure was slightly above 12%, but annual inflation is likely to be 13% because of the global crisis and because the Central Bank and the Ministry of Finance have had to inject huge cash volumes into the economy. But on the whole, I repeat, the annual results will be good despite the global financial crisis.

**– Will you have to change plans for the future, and if so, to what extent?**

– We have no intention to change any plans, which is very important. I am referring also to the investment plans of Russia's largest companies, the planned reforms of the housing and utilities sector, healthcare and compulsory health insurance, education and the pension system.

Everyone knows that in some countries which have been hit by the crisis wages and income of the population are planned to be cut. We will not do this. On the contrary, we intend to implement all our plans aimed to increase our people's income.

**– The most important question is, will we survive the crisis?**

– To be honest, it is going to be a difficult period in the global economy, including Russia. And we must be prepared for it morally, administratively, financially and even politically. But as you know, Russia has survived bigger troubles during its over a thousand years long history.

In early 90's, we faced the problem of territorial integrity, and industrial and social disintegration. Today the situation in the country is absolutely different. We have a good chance of getting through this difficult time with minimal losses for the economy and the population.

**– Our company is very likely to be shut down because of the global crisis. Most locals of our village who worked for the metallurgical sector became unemployed. What do we have to do in this situation?**

In the conditions of rapid economic development and soaring global demand for some of our traditional products, including those in the metals industry, our companies used to expand and hired the required number of workers. Now, the worldwide metals consumption plunged after the automotive industry curtailed production. The US, Japanese and European consumers have decreased production by over 30%, 15% and 20%, respectively. Russia has also cut exports. Our steel mills used to export almost 50% of their products. Naturally, we cannot directly influence this objective problem. At the same time, I am absolutely convinced that the global market will

change, and that our country will need more metals and other traditional products. Naturally, human resources, especially skilled workers, will be in great demand.

But what can and must be done today? As I have already said, we have raised unemployment benefits for jobless people to 4,900 rubles (about 130 euros) per month.

Moreover, private and public authorities will have to draft an entire range of measures in an effort to preserve jobs wherever possible. The relevant allocations must be used to finance retraining courses for the workers of affected businesses. We must provide additional regional migration opportunities and redirect human resources to regions requiring such resources. We must implement public works and infrastructure con-



We intend to implement all our plans aimed to *increase our people's income*

struction projects. We have enough money and resources for accomplishing these objectives.

## Support to the industry

**– Are big banks worth helping? They take money from the state at 6% per annum, but lend at 25%, including to small and medium-sized businesses. Perhaps, it would be better to render direct financial support to enterprises? Has the Reserve Fund enough cash to live through the crisis?**

– Banks are the circulation system of any economy. We should remember the negative consequences of previous years or the negative results of meltdowns in previous years, for example in 1998, when the whole banking system collapsed. We cannot, of course, allow this to happen again, because behind the banks are not only industrial businesses, behind them are millions of savers – the ordinary people of Russia, who want banking institutions to function properly and have enough cash to meet people's interests. This is why we are channeling vast resources into the banking sector – about 5 trillion rubles (200 billion dollars). These resources are available and are being injected into the banking system. We worked predominantly with the so called "system-forming" banks. These are banks with state ownership: Sberbank, VTB (Vneshtorgbank), and Gazprombank. Partly, it is VEB (Bank for foreign economic relations). However, we see now is that these efforts to support only the banking sector are not enough, because today's crisis is rather unique. The global economy has never met with a crisis of this size before.

So today we decided to support the industry directly, having allocated 175 billion rubles (7 billion dollars). These are long-term loans which must be directed to production or service-based businesses. At the same time, we will demand from banks to report to us on how they intend to lend money to three important sectors: farming, defense industry and small and medium-sized businesses. Furthermore, we will recommend banks a long list of enterprises to finance. Naturally, we will be insisting that state money reaches the end user. If it's not enough, we will use other tools. What are they? For example, joining directly the capital of large companies that are the core of the Russian economy. We are not ruling out that such tools could be applied on a wide scale.

When a TV viewer asks a question about the Reserve Fund, he probably means all the state reserves in general. Because we have the Reserve Fund, the National Welfare Fund and the gold and currency reserves of the Central Bank. These reserves are really large. Russia has the third biggest gold and currency reserves in the world. We have been saving these assets to use them in case of crises in the world economy and, as a consequence, in the Russian economy. That is what we are doing. But we will do it carefully. What does "carefully" mean?

We should have a clear idea of how much currency flows into the country and because of the falling world prices for our main commodities – energy, oil, gas, petroleum products, metals, fertiliser and some other products – because of the falling prices for all these goods in the world markets and because we continue spending significant amounts of currency on imports, the inflow and outflow is regulated by instruments that are well known in the economic and financial sphere, and we will use these instruments. We will not allow leaps in the economy and sudden changes in the exchange rate of the national currency. To secure interests of both the citizens and the economy, we will carefully use the gold and currency reserves and other funds at the Government's disposal. If we pursue a balanced, meaningful and responsible economic policy, these assets will be sufficient.

## We invite such investments

**– Europe withstands the world crisis better than the US. Perhaps it makes sense to step up**



**efforts towards integration with Europe?**

– We pursue multi-vector foreign and foreign economic policies. We cooperate with Asia's actively developing markets, with the countries of the Asia-Pacific region; we interact both with Latin America, and the USA, which is one of our major trade and economic partners; and I hope it will remain so in the future.

As to Europe, it is still our major partner. The European Union accounts for over 53% of trade turnover with Russia. Furthermore, we do not simply trade with the European Union – in the general economy, in its key areas, real integration is taking place. One of such key areas is certainly the energy industry.

I made this point already, and I can repeat it. We admitted a number of European companies – Finnish, Italian and German – to our energy sector; they acquired major stocks of our power companies, invested literally billions of dollars and euros. We admitted them to participate in the development of both oil and gas. We invite such investments.

I have to do justice to our European partners. For their part, they ventured the construction of new routes for our energy resource supplies to Europe. An excellent example is the constructing of the North Stream gas pipeline and our plans for the South Stream, as well as some other projects. Europeans have also admitted us to their energy transport system, namely the trunk pipeline. These are very good examples of integration in a crucial economic sphere: energy. This cooperation will increase the transparency, reliability and stability of both the Russian and European economies. We will continue pursuing this policy. Unfortunately, there is still a lot of prejudice and phobias towards Russia, especially in the so-called New Europe. But I think that those nations, especially their governments, will eventually

come to realise that it is necessary to face the future instead of clinging to the past.

**Russia has seen greater problems**

**– Today, at a time of global financial crisis, which has also, unfortunately, affected Russia, it is very important to support small business.**

– Small and mid-sized businesses are no doubt very flexible forms of economic management and the quickest to respond to changes in the labour market, and in these conditions, complicated by the global financial system, deserve the closest attention and support. I should say that the Government is preparing a series of moves, which are as follows: first, we will substantially increase federal budget support, raising it to 10.5 billion

**“ We will undoubtedly get over the present crisis**

rubles (380 million dollars); then, additional funds will be allocated by Vneshekonombank – 30 billion rubles (1.1 billion dollars); we will also preserve all former types of support for small and mid-sized businesses.

Regional funds for support of small businesses and micro-crediting funds that issue loans of between 200,000 rubles (7,150 dollars) and one million rubles (35,700 dollars) will continue to operate. All these things taken together – and if necessary, we are ready to allocate additional resources – must, in our view, have a substantive influence on the development of small and medium-sized entrepreneurship.

**– How will you deal with massive unemployment?**

– I'm still hoping that we won't have massive unemployment. Although looking at the labour market, we can expect more people to lose their jobs for some time. Now we have about 1,700,000 registered unemployed, and this number will exceed a little over two million. We will earmark additional funds from the federal budget to the Federal Employment Service, from 10 billion to 50 billion rubles (360 million – 1.8 billion dollars), to enable it to react quickly and operate in several directions.

First, it should use the labour market downturn to prepare employees for the next cycle of economic upsurge, for the advance of individual industries of the world and national economy, to invest with businessmen and regions in establishing retraining centers. Secondly, it should help people get jobs in neighbouring regions to facilitate labour migration. Third, it should encourage major companies to carry out their projects primarily in problem regions. This applies to the construction of infrastructure, roads and railways, and the building industry as a whole.

Finally, we have raised unemployment benefits considerably, to 4,900 roubles. I've already said that this is an extreme measure but I consider it justified. This is a tangible sum, if we recall that the pension is 4,500 roubles. I understand that a person will receive this money for a rather short amount of time, not for life. But the regions and the Federal Employment Service must tackle this problem without delay.

**– The crisis is very hard on us! When will it finally end?**

– This is a vital question. Russian and foreign experts have estimate global economic developments and the impact of the crisis on the Russian economy differently. Some of them expect a global – which means Russian, too – economic

rise as early as the end of the second or third quarter of 2009. Such optimistic experts are few. A majority do not expect a rise earlier than the spring of 2010.

Anyway, I want to stress it again that Russia has seen greater problems, and coped with them successfully. We will undoubtedly get over the present crisis, too, if we follow the right course and are purposeful about our complicated economic and social matters. We have every chance to do it, and need to do only one thing – to concentrate on national interests and work together. This was always the case when Russia was facing any problems.

**– What do you love most of all? Russia.**

# How to deal with the financial crisis

Estimations and proposals expressed in RF CCI at the meeting on measures to help Russia overcome the financial economic crisis.



**Yevgeny Primakov**, President of CCI of Russia, noted that the financial crisis in the USA gave birth to “cancerous growth” with metastases which got into other economies covered by global ties. Undoubtedly, the only way to avoid a catastrophe in the market is to extend the state’s role widely. This has been already the case in many countries.

Today it’s not the best time to criticise the policy of Russian governmental financiers, said Primakov. However, he named some of its main features:

- ▶ rejection of the partial inflow of accumulated funds in the real economy;
- ▶ investing of accumulated funds in US treasury securities instead of using this money inside Russia to diversify the country’s economy;
- ▶ absence of pre-crisis measures aimed to increase capital of Russian banks, liquidity of all units of the financial system;
- ▶ encouragement of enterprises receiving loans from abroad. Whereas

The agenda of the meeting held in the Chamber of Commerce and Industry of Russia was “On difficulties in the financial economic sphere and measures to surmount them”. Among the participants of the meeting were heads of the Chamber and its profile committees, members of the Federal Assembly of the RF, representatives of association of entrepreneurs, businesspeople. Yevgeny Primakov, President of RF CCI, was the opening person of the meeting.

the government paid public foreign debt of \$ 90 million, corporate debt of Russian companies, most of them publicly owned, exceeded \$ 450 billion, as is well known.

- ▶ poor usage of the tax system for innovation development;
- ▶ lost time because the necessity to create the industrial policy, strategic plans and an investment fund was realised too late.
- ▶ extremely slow use of budget funds and realisation of already approved programs, including the creation of special economic areas, network of venture companies which are to back hi-tech production and export.

We have to understand, what we have done wrong or haven’t done at all, and then focus on searching how to help our country out of the coming hard economic situation, said Primakov. Besides, President of RF CCI pointed to two main principal issues.

First, neither external markets nor inflow of foreign investments can’t remain the main source of financing of the Russian economy. In the new economic environment, some new factors gain in importance, such as internal sources of funding, long-term deposits of individuals and legal entities, free funds of the Pension Fund of the RF, as well as a part of funds of the National Welfare Fund and budget surplus.

Secondly, we have to do everything we can to prevent a conflict between anti-crisis measures and the course towards economic development and social welfare growth.

The staff under the Chairman of the RF Government Vladimir Putin proposed to take a number of urgent measures aimed to stabilise the Russian financial system. If the financial system crashes down, the whole economy will collapse, hitting hard the Russian population. Presently, we have to spare no effort to realise these decisions as quickly as possible. However, it’s also important to introduce strict rules under which state-backed banks become obliged to save existing credit lines for companies and grant loans to small and medium-sized enterprises in fixed terms.

These measures are not enough, though. We have to carry out direct financial injections into the real economy, to stimulate it in order to keep and strengthen its positive dynamics: GDP growth, innovation development.

The real economy sector has been already facing a lack of money to be invested in its development, its debts should be refinanced. However, considering the unfavourable market environment, the current problems may be solved only with the financial support of banks. The time has come for the government

## Dmitry Medvedev, President of Russia:

► To overcome the global financial crisis, we need new powerful ideas, just like several decades ago. We will have to rebuild the whole international financial architecture, make it open, fair, efficient and legitimate.

We have to create new collective structures for global regulation and coordination and increase the role of the existing ones. These structures should be based on principles of harmonic standards of domestic and international regulatory institutes, democracy and responsibility for taken decisions, transparent activities of all participants and fair distribution of risks.

If we don't take such measures, we won't be able to reach concurrence between economic strategies of various states.

to buy out debt securities and shares of domestic companies.

In the pre-crisis conditions, we should focus our special attention on the Pension Fund. The volume of its funds is nearly equal to that of the whole ruble domestic public debt. At the same time, the Pension fund has no investment mechanisms as yet.

As for measures stimulating business, one of the most important instruments of such kind are taxes. In my opinion, it would be reasonable to change some decisions taken in the past. For instance, the decrease of the VAT and the revision of some other tax rates could create better conditions for production growth. Presently, we often hear the appeals to the population not to take their savings from banks and not surrender to panic. In my view, it would be much more dangerous if a "closed circle" arises: enterprises decrease the amount of production, then employees reduce or even refuse to pay wages and salaries, then employees have to take their money from banks, which, in their turn, cannot strengthen customer serving methods. As a result, the social and political situation in the country will worsen.

The speech of Yevgeny Primakov stirred up a vital discussion.

**Garegin Tosunyan**, president of the Association of Russian Banks, said that Russia, although being an integral part of the world financial market, got this status not long ago and, therefore, doesn't feel all its problems in the full extent.

That's why we can benefit from this situation and the new architecture of the financial market that will be

established in the next several years.

What is the amount of Russia's current debts? According to Tosunyan, it totals about \$ 450 million, including corporate and banking debts. In the fourth quarter of 2008, banks and corporations have to pay out \$ 15 billion and \$ 25 billion respectively. In Q1 2009, their repayments

will amount to \$ 12 million each. However, our country has enough resources and can change the situation to the better if the government carries out appropriate measures quickly and efficiently.

At the beginning of the present year, our financial authorities pointed out that the volumes of credits and assets were growing too rapidly. Besides, in Russia the average credit density is 134 euros per head, compared with \$ 212,000 in the USA. Furthermore, Russia yields to Europe in mortgage credit volumes by 400-500 times.

**Ruben Vardanyan**, chairman of the board of directors at Troika Dialog, noted that in the global crisis environment Russia has faced some internal problems, among others. The first difficulty is our inadaptability for a lack of short and even long money. The second one is the absence of solid financial



institutions. Really, we are a very weak institution for our economy. And the third one is that the weakness of the economic system and the failure of industrial enterprises to adapt for difficult financial conditions entailed the crisis of confidence. The financial infrastructure turned out to be not prepared to global cataclysms and fluctuations. As the market dropped by 60-80% within several months, the Russian infrastructure showed the absolute incompetence to react adequately. At the same time, we can work in crisis conditions evidently better than Americans or Europeans, believes Vardanyan. Our business-people are really able to put up with unfavourable economic environment. In some countries, many market players aren't acclimatized to crisis conditions. It's their big minus. The ability to survive is in our genes. It's our great advantage.

**Nataliya Fonaryova**, chairman of the RF CCI Committee on regulation of business activity, is confident that Russia isn't likely to overcome crisis easily. Unfortunately, such important legal regulators as public control and state price formation haven't

It is necessary to create a governmental system of macroeconomic monitoring. This should be the task of the Central Bank and the Ministry of Finance. The Chamber of Commerce and Industry of Russia can also play an important role in its solving. Such monitoring system is what we need

“ Our priority is to save the availability of financial services

been functioning in some leading sectors of the Russian economy. As a result, it comes to monopoly prices, being somewhere high and somewhere low. For example, prices for agricultural production are set too low by design. And the shortage of food may lead to a hard social financial crisis.

urgently, noted **Alla Gryaznova**, rector of the Financial Academy under the RF Government.

**Mikhail Mamuta**, president of the Russian center for microfinance, pointed to another crucial risk – the decrease in staff in major companies. Some trends have been already evident. He believes that appropriate measures should be taken to soften negative social consequences of the decrease. We need to extend employment opportunities of Russians in the sphere of small and mid-sized business.

The main reason for crisis is our country's focus on raw materials. That's why all possible anti-crisis measures have to be aimed to diversification of the economy and counteract the recession, noted **Oksana Dmitriyeva**, chairman of the RF CCI Committee on social policy issues, deputy of the State Duma. Instead of criticizing the monetary policy pursued by the government, we have to make diagnosis and find ways out of crisis. We don't render enough support to enterprises, including small businesses, house owners, and mortgage credit consumers. We have to take appropriate measures to help small businesses as quickly as possible.

“How can we overcome the crisis of confidence?” – asked himself **Anton Danilov-Danilyan**, chairman of RF CCI Committee on investment policy, head of the Economic working group under the Administration of the PF President. There are two ways to get over this crisis: if a borrower



shows good financial results or if a debtor becomes owner of some guaranteed assets or resources. If enterprises functioned stable before the crisis, their solvency raised no doubts and demand on their production was steady and strong, these enterprises must automatically obtain state guarantees.

**Boris Titov**, chairman of the All-Russian social organization Business Russia, noted that Russia didn't manage to use the period of favourable market environment and high oil prices to diversify the economy. This problem was discussed in the Chamber of Commerce and Industry many times. Unfortunately, today we have to think of saving the Russian industry rather than diversifying the economy. We have to build the strategy for the future, taking into account mistakes we made in the past. In the crisis period Russia needs actions which could be implemented rapidly. There is a necessity for "tax holidays" for the whole business, not only small enterprises, because social consequences from the decrease in production seem to be much more dangerous than it may be if tax returns to the budget decrease.

The current situation is really very controversial, agreed **Valery Platonov**, chairman of the RF CCI Committee on industrial development, CEO of the Chelyabinsk tractor plant.

On one hand, our economy feels a real demand on machines and equipments. On the other hand, oil, gas and building companies hold no tenders and don't purchase equipment because of lack of cash as banks frightened by the crisis have stopped lending money.

We have no experience in working in the market conditions. In the recent years, we were proud that our growth rates are higher than global figures and that we yield only to China in this respect. That's why even a slight decrease made us struck with panic. Many enterprises we cooperate with posted a 20% or even 30% drop in monthly volumes of production. If we don't take appropriate measures, the economic downfall will be inevitable and hit hard on common people first of all.

**Yefim Basin**, chairman of the RF CCI committee on construction, housing and public utilities, CEO of Corporation Inzhtransstroy LLC, stated that the crisis has affected the Russian building industry as this sector makes 7-8% of GDP. The mortgage business will suffer most of all because banks either increase loan rates or stop

are usually granted for five-seven years because the period between the drilling of wells and the recovery of resources usually lasts at least five years. The internal lending stopped in the middle of 2007, the external lending – in the middle of 2008. Small entrepreneurship is a social factor because it unites millions of economic entities and tens of millions

## “ Measures announced by the government *should be realised as quickly as possible* ”

granting credits. The whole mortgage system may go to the drain.

Many companies reduce investments in real estate and often give up on new projects. The production of construction materials may fall and some experts even propose to abandon building of cement factories. If the government wants to save the mortgage business, it has to increase authorized capital of the Agency for mortgage credits by means of using various funds, i.e. pension ones. The authorities also have to use private-public capital for building of toll roads. Despite to the crisis, toll roads still arouse keen interest of businesspeople. Such adopted federal programs as Roads of Russia and development of the Russian traffic map allow both supporting the building business and urging construction materials production. In spring 2008, oil prices reached \$ 147. At the same time, oil production has been sinking since the middle of the past year. The reason is that we have exhausted all opportunities to increase production volumes, explained **Valery Garipov**, chairman of the RF CCI sub-committee on energy strategy and fuel and energy industry development. Only several Russian companies have reached a really high level of geologic exploration – LUKOIL, Rosneft and Surgutneftegaz. Other oil companies are rather small and operate at the expense of long-term credits. Loans

of employees. The fact that the crisis has already touched on small business cannot but raise concern, said **Alexander Ioffe**, chairman of the RF CCI Committee on financial support to entrepreneurs, president of the Russian association for development of small and mid-sized businesses. The relationships between small businesses and banks have worsened. Lending institutions withdraw credits, increase loan rates and lending conditions, hypothecary value. Some enterprises aren't able to pay rent, as well.

The government has to monitor the situation both in all spheres of the economy, in all regions. Many economists don't understand what changes occur in the global economy. In other words, we need to established anti-crisis headquarters which will function on an ongoing basis and unite representative of various branches and groups of business. ≡





Director of the New Economics Institute of the State University of Management, member of the Russian Academy of Science Sergei Glazyev:

## We need to change our monetary policy in principle

*“What we’ve got in the global economy today, is not only the breakdown of the financial pyramid, built by the Americans on their debt liabilities, and not only the isolation of the financial speculations from the real economic sector, it is also a structural change of the global economy”.*

*“But the main point for us now is not to uplift the market by any means, but to think of creating our own national financial-investment system”.*

*“We cannot undertake foreign exchange risks any further. We should create our own ruble zone”.*

*“It can be brought forward an Economic stability pact to the Government in the name of the Chamber of Commerce and Industry of Russia”.*

**T**he financial crisis is promptly turning into an economic depression. Those measures, proposed today by the government of Russia, cannot guarantee that, after a deep recession on the financial market, the allotted tens and even hundreds of billions reach the real economic sector, interest rates remain outrageous.

To assure that enterprises get access to that money, interest rates should be reasonable. This means that they should at least somehow correlate with the operating ratio in the real economic sector, which may vary in the manufacturing industry from 8% to 15%, but in no way between 25% and 30%. In some branches, it is to be 4-6% and in the agriculture even less.

We’ve forgotten that as far back as six months there was a belief in government circles that the financial crisis has already come. The financial bubbles were bursting all over the world. At that time, an unsubstantial idea appeared that Russia may become a quiet financial harbor for the global risk capital. Instead of that, we’ve seen an almost three-fold fall on the Russian financial

market. The crisis in Russia turned out to be much deeper than in its epicenter. Unfortunately, our financial authorities hardly realize what the global financial crisis is, how long it will last and what consequences it may lead to. And naturally, they started making attempts to suppress our financial crisis with a great delay, to a large extent guided by imitating measures taken in the western countries.

What we've actually got in the

after the crisis finds its application in new technologies and is finally turned thereto, causing the upgrading and the strong growth. The loop of this new technological setup can be already seen. Furthermore, it is even described in our Government's program "The Development of Russia until 2020". This complex of new branches, nanotechnologies, biotechnologies, genetic engineering, informational-communication technologies grows despite the crisis.

zone. Europe will reinforce the Euro zone. And we should create the Ruble zone.

But the main point for us now is not to uplift the market by any means, but to think of creating our own national financial-investment system. Today we have unique opportunities for doing that. The main reason, why the Russian financial market hasn't become a quiet harbor, is that our financial system per se is of a marginal nature and depends entirely on foreign currency. Actually, we've got a colonial financial system, when the emission of the national currency depends on buying foreign currency. That is why our financial system is shaken along with the financial metropolitans' systems – the American and the European ones.

What can we talk about, when 60% of funds in our economy is formed by foreign credits? This means that, with the loss of foreign credits, our financial system will collapse too. To compare, we should also understand the role of the credit system in our economy. In the USA, the volume of credit refinancing allotted by the financial authorities is twice as large as the country's GDP, in Japan – four times as much as GDP. In our country, it's just 40%.

We need to change our monetary policy in principle. And in this situation we are simply forced to avoid the dependence of the ruble emission on the volume of foreign currency bought. The Chamber of Commerce and Indus-

**The devaluation cannot be avoided.** China will be forced to create its Yuan zone. Europe will reinforce the Euro zone. And we should create the Ruble zone.

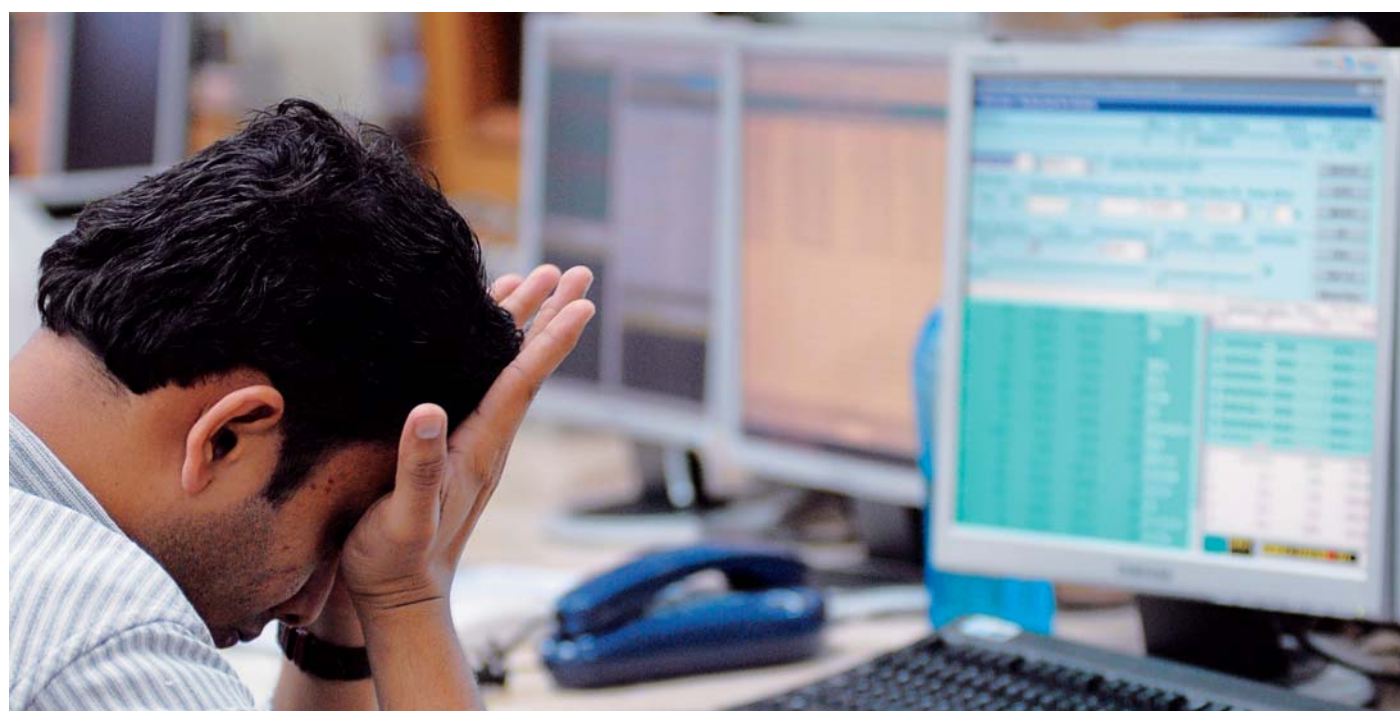
“ This crisis will last *several years*, maybe three or five years”

global economy today, is not only the breakdown of the financial pyramid, built by the Americans on their debt liabilities, and not only the isolation of the financial speculations from the real economic sector, it is also a structural change of the global economy. What is at issue is a transition to a new technological setup and a new long wave of economic growth.

If we look at the economic history, such periods are always accompanied by financial speculations, financial bubbles, devaluation of the major part of the financial capital, which disengages from outdated productions. And this turbulence period usually finishes, when the financial capital left

We have to understand that this crisis will last several years, maybe three or five years, until this new technological setup starts to uplift the global economy. But, meanwhile, serious changes will occur. In particular, the dollar will fall even more, because what American financial authorities do now, looks like putting out the fire with kerosene. I mean they're just printing and printing money. In a few months the national debt increased half as much again. This means that in the next year it should be handled. It means that the dollar emission will increase even more.

The devaluation cannot be avoided. China will be forced to create its Yuan



try of Russia many times discussed the idea of the transition to the currency issue tied to the demand for money from our own economic agents, against a pledge of promissory notes of manufacturing enterprises, etc. But now we have to apply these measures urgently. What does it mean? Our financial authorities are forced to step aside from the old pattern. What are being implemented today are, of course, elements of the new pattern in replacing foreign credits by national ones. But it isn't enough to create our own investment system. We should assure that allotted funds reach the real economic sector. It cannot be tolerated that the credits received by the banks at interest rates of 6%, 8% or 10% from the financial authorities are passed to real enterprises of the real sector at the interest rate of 25-30%, or, what is even worse, are transferred to the financial market, or to the currency market, or are converted into foreign currency because of "possible" devaluation of the ruble.

It is essential to introduce a quite tight control over funds allotted by the authorities for the purpose of backing the banking sector. Even the regulation of interest rates would be justified as it is widely applied in such turbulent situations. The time has come to lower interest rates to make the industrial segment profitable again.

It is also important to tie the credit policy to demands of enterprises. In other words, we have to increase the amount of refinancing of commercial banks over a pledge of promissory notes of enterprises. We have to enlarge the pawn list, broaden the national corporations created today into the high tech sector. It is important to ensure that money flows to the science-consuming industry, hi-tech sector, which is our last and only hope that our economy will sometimes reach a stable growth path.

In addition, it is necessary to decrease the dependence of the economy on currency risks. I mean the conversion to rubles in our export commodity operations. We cannot undertake foreign exchange risks any further. We have to create our own ruble zone. And, of course, the first step towards this is the conversion to rubles in our gas deliveries to Belarus and to Ukraine with effect from January 2009. And then we need to

broaden this ruble zone step by step. In aggregate, all these steps, of course, lead to the relatively fast refunding of the economy. And the main threat is, naturally, the inflation, which is already round the corner. Let's make a stabilizing pause – freeze the gas, heating, electricity, railway transport rates, so that the real economy sector could see light at the end of the tunnel.

It is necessary to create conditions to retain as much funds as possible in the real economy sector. It's unreasonable to lower the VAT (value-added tax) to 10% because it's too late to apply this measure. We need to put a question about the abolition of the VAT.

“ We need to put a question about the abolition of the VAT ”

Possibly, the next year would become the last year, when we can venture it to ourselves – as long as there is a surplus, as long as the oil and gas rates don't fall to a critical point, as long as we have a financial bolster. And then this measure will allow us to set off this loss, increasing the money saturation of the real sector.

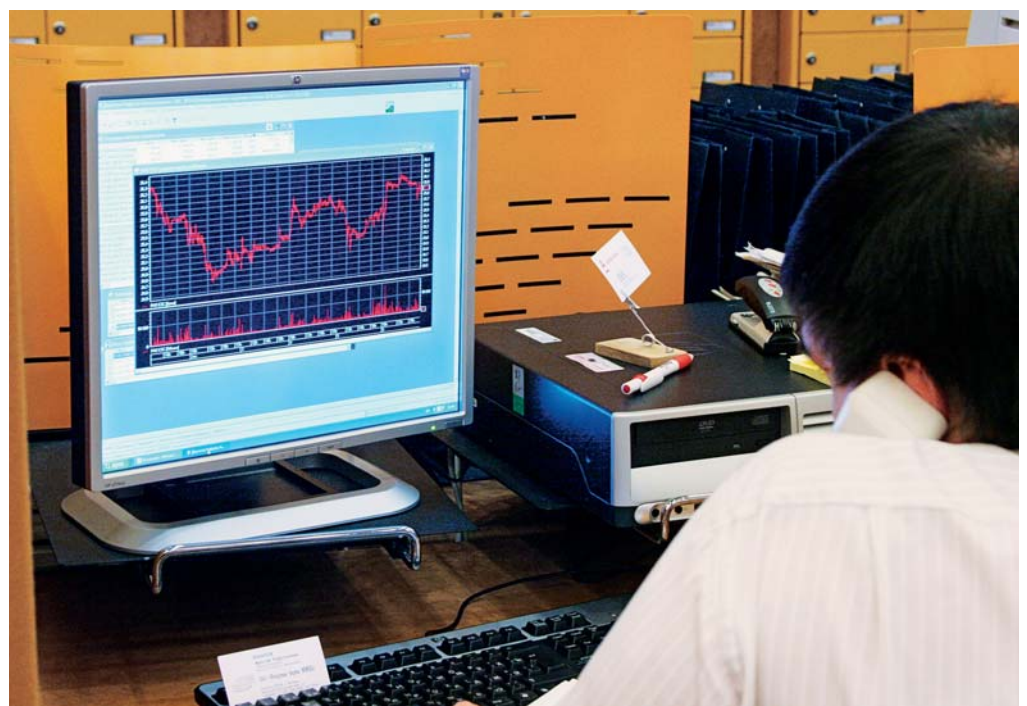
It is possible to balance the budget for 2009 without the VAT. It is quite realistic, concerning the surplus projection that we have. And, in the whole, perhaps in this complicated situation, when businesses don't

#### Economic problems in the spotlight

► In particular, the dollar will fall even more, because what American financial authorities do now, looks like putting out the fire with kerosene. I mean they're just printing and printing and printing money.

put trust in the state and the funds are going abroad, it is reasonable to think about bringing forward some kind of an economic stability pact to the Government in the name of the

Chamber of Commerce and Industry of Russia. This document could stipulate that the Government is applying measures towards changing the monetary policy, saturating the banking sector with funds, building the Russian investment system, and business, in its turn, undertakes the commitment not to transfer received money abroad and to take the responsibility in achieving real economic growth performance, inclusive in terms of production growth. This is very important! ≡



Yury PISKULOV, head of the working group on international industrial cooperation at the Russian Chamber of Commerce and Industry

Interview by Vladimir CHERNISHEV



# Knowledge is the main factor of production

– **The world is getting polarized, dividing into developed and marginal parts, i.e. those who succeeded in transition to innovational development and those who did not have time to do so. What do we need to do if we do not want to be left behind in this regard, in your view?**

– An essential direction on the matter of stimulating Russia's innovation activity may be the development of the international production cooperation (IPC). Statistics say that almost half of today's transactions are made on the basis of cooperation agreements. In the commerce area, this rate is even higher – up to 60%. The very international trade has changed. Energy supply trading makes only 15%, the rest are finished and half-finished products trade for needs of the “global factory” of specialized production within high-tech multinational corporations. According to the latest estimations, the cooperation in the framework of international partnership agreements allows reducing the terms of production arrangement by 50-70%, decreasing costs for launching new production. Let me refer to an example from the history of productive cooperation development. In 1977, we signed a long-term cooperation program with Finland. A special paragraph of the document was devoted to productive and technological cooperation on more than 60 issues. Towards the 80's, mutual shipments of cooperative production within trading process with Finland reached millions of rubles, including in the sphere of newest communication means, shipbuilding, machinery, etc. And today at the Kouvola railroad station in Finland

One of “technical barriers” is the difference between Russian and international technical requirements



you can find SR-I electric locomotives that were built in Novocherkassk at the end of 70's in cooperation with Finnish, Swedish and Swiss enterprises. At that time, those 110 Novocherkassk locomotives were the most modern ones. It appears today Russia should pay paramount attention to IPC as a tool of innovative economics development and increasing the products' competitive ability. Unfortunately, this does not happen due to several reasons. Among them are the following ones: primary character of our economy, decline of

neither any clear foreign-economy course, nor a strategy of economic security. A few years ago the industrial policy, especially in certain industry branches, was considered by governmental liberals as an obscure term. Today we see that the public private partnership is strengthening. For instance, the development strategy of the aircraft industry aims at the global market through transition to the “open branch” model with cooperation relations, governmental leasing and R&D support and a budget 3-years-prospec-

“Russia has not found a place for itself at the “global fabric” of products and services yet.

Russia's manufacturing industry in the period of reforms at the end of the past century, denial of industrial policy by nomenclature “liberals” until recently, and inter-departmental mismatches. We have to coordinate not only commercial issues, but also technical ones, like unifying norms and standards, issues of customs and currency-financial policy between the joint project participants who represent not only different industry branches, but also different countries.

– **What tasks of Russia's innovative development and its foreign-economic relations do you think the IPC should primarily deal with?**

– Russia has not found a place for itself at the “global fabric” of products and services yet. We still have no concept of participation in the global economy:

neither any clear foreign-economy course, nor a strategy of economic security. A similar approach is beginning to show in the shipbuilding industry. Taking into consideration the circulating assets deficit, the participation of Russian enterprises in IPC may stir up technical reequipment of the industry, activate its export orientation, promote the production quality and facilities' capacity, and reduce unemployment. The IPC provides attraction of high technologies and rise of production profitability for all participants. From the variety of IPC forms, Russia has mostly adopted joint enterprises so far. Large cooperative projects have been launched in motor industry, aircraft engineering, pharmacology and food industry, as well as in the sphere of consumer electronics, lifting equipment, and construction materials. Expanding



The end-production – cranes with unique technological abilities is competitive at the world market due to innovative technology applications

participation of Russian companies in IPC is closely connected with investment cooperation and depends on working out an efficient industrial policy.

Absence of governmental support of manufacturing industry until recently has not only reduced the competitiveness of Russian finished products at the international market, but also hinders the IPC adjustment. Further constraints are also low quality of domestic production, outdated productive base, unfavourable investment climate, underdevelopment of customs and tax legislature, outdated information logistics. You can count to “technical barriers” also the difference between Russian and international technical requirements.

We give up the car building industry, if I'd be allowed to say so, due to its low competitiveness to foreign multinational corporations believing that this branch does not have strategic significance. As for the aircraft industry, and especially its military branch, we do have much more strong positions.

During a session of our working group we discussed this issue with a “Sukhoj” company representative in regard of the Sukhoj Super-

The Sukhoj company will be able to, create and realize a competitive Russian jet also on the international market

jet project. The “Sukhoj civil aircraft” company cooperates with Boeing on issues of design, projecting, production, certifying of the new plane, its marketing and sales policy. Besides, 14 Russian companies are also going to take part in this production. Therefore the Sukhoj company will be able to, create and realize a competitive Russian jet also on the international market. The IPC in the military-industrial sphere is another topic, though Russia has here good prospects as well. A significant IPC development element in Russia is also some customs routines, for example the duty-free zone routine that provides for free access of foreign raw materials and accessory to such zones without paying customs duties and value-added taxes for industrial or implementation activity.

Another tool of finished products export stimulation in the framework of IPC is the routine of production reprocessing on the customs territory. It allows using foreign raw material and accessory to manufacture products intended for export at more preferential terms than in case of import, i.e. without paying customs duties and taxes for imported products if there are supposed to be reprocessed into some export goods. Unfortunately most of Russian reprocessing enterprises still are not only beyond global competition, but they do not compete with each other either. That is the cost of the “spontaneous liberalism” policy of the 1990ties.

– **Do you have examples of successful cooperation with our CIS-neighbors?**

– The number of such examples is constantly multiplying. The CIS member countries understand the importance of maintaining the existing partnership

ties between us, but they also look forward to creating some new, high-tech and mutually profitable relationships, aimed both at the needs of participating countries and at global markets. An obvious example is the activity of the Belarus SIS Engineering company that produces electrical equipment: control systems for climbing cranes, production machines and technology processes. Its electronic products find application at crane mechanisms constructed by leading machinery enterprises of Ukraine and Russia. The end-production – cranes with unique technological abilities that are competitive at the world market due to innovative technology applications, – is in demand in Russia, Ukraine, Belarus and Kazakhstan. The success of this company might be bigger if our countries could efficiently coordinate on the issues of mutual interests. The tool of such coordination could be the private-state cooperation of that type we have with Finland (“EuroRussia”). In this case we might also get the EU countries involved, Finland in the first line, whose crane and lifting equipment (“Kone” company) is well-known all around the world.

It is paradoxical, but Russia does not have yet any law or a respective governmental decree on the production cooperation procedures; and on IPC in particular. And such documents are necessary in regard of growing importance of intellectual property as a component of IPC. Taking into consideration the goals of creating innovative economy and increasing Russia's role at international high-tech market, we would hardly be able to count on success without solving the above mentioned tasks. ≡





**Sergey Lebedev,**  
Chairman of the Executive Committee – CIS Executive Secretary.

# Commonwealth as the earnest of success

**F**or the CIS states, the last several years may be characterized by the development of national economies, creation of prerequisites for the expansion of mutually advantageous economic cooperation and new long-term affiliations. All this discovers new practical perspectives for an effective economic development, increase of specific weight and influence of the CIS members on the dynamics of the global economic system.

In the report “Global economic situation and prospects, 2007” the experts of UNO forecasted CIS to remain the most rapidly developing region on the Earth. This forecast is particularly confirmed not only by the 2007 results, when the CIS states produced 4.5% of the world’s GDP and CIS’ export of goods accounted for 3.6% of the global results, but also by the positive dynamics showed by the main macroeconomic indicators in the major part of the CIS states.

On an average, the industrial production manufacturing in the CIS countries increased by 7%, capital investments – by 20%, volume of cargo transported – by 5% and the retail trade turnover showed a 16% growth.

Preliminary results of the economic development of the CIS states for the first months of 2008 give rise to suppose that the CIS members will continue increasing their economic capacity and mutual trade and that positive trends are consolidating success in the processes of the economic development of the Commonwealth.

An important role in the achievement

of these results belongs to the branch-wise authorities of the Commonwealth. These organizations cover practically all the sectors and scopes of activity, providing direct communications with a concrete sector of economy.

The councils became one of the most effective structures in the CIS. Today 46 branch-wise authorities operate at a wide range of levels of the economic segment. The Council of the officials of the Chambers of Commerce and Industry of the CIS members is a successfully operating branch-wise authority. Its activities, aimed at conservation and consolidation of the common economic space and at further development and improvement of the economic contacts between the Commonwealth states, could be undoubtedly evaluated only positively. Suffice it to specify a number of sectors, in which the Council tightly cooperates with the Executive committee of the CIS. For instance, it is the implementation of the Cooperation agreement in the area of fair and exhibition activities, an active participation of the Council in the fine-tuning of the new edition of the Identification of the goods’ country of origin Rules, work on the completion of the cancellation of tariff and non-tariff restrictions, competitive products monitoring.

There is nothing extraordinary in the fact that the economic range of problems is the priority for the Commonwealth states. The heads of the CIS states give even more consideration to problems of further economic cooperation development. This is confirmed by a number of decisions in principle recently approved by the Council of the heads of CIS states. They concern the concept of further development of CIS and new steps towards its implementation, the designing of the Economic development of the CIS Strategy project, the announcement of 2008 as the Year of transport, the development of a set of measures aimed

to increase the ration security of the CIS member states. It is expected that the next year will be announced as the Year of power industry.

On the agenda of the Commonwealth stays the creation of an integrated innovative space, comprising the national resources of the parties and providing a stable and systematic development of the scientific and technical segments of the economies of the CIS states.

I would like to emphasize the importance and the efficiency of holding different kind of business-forums in the CIS space, as they promote the establishment of a closer collaboration between the representatives of the business communities of the Commonwealth states and in the final analysis the strengthening of the economies of our countries and the CIS region in general.

I would also like to point out that the Republic of Belarus that has assumed the presidency over the Council of the heads of the CIS governments has taken into account the initiatives proposed by the CIS members and suggested a new program of actions, in which, among other paragraphs, there is a clause concerning the definition of methods of organization and holding of business forums. The Republic of Belarus proposes to analyze the results of the business-forum of the CIS states recently held in St.Petersburg and consider the procedure of such events in the future. The CIS member state will seek to increase the amount of projects and programs, in which implementation all the states of the Commonwealth will be interested. A close collaboration of the Chambers of Commerce and Industry, business communities, branch-wise authorities of the Commonwealth in these and other segments of international cooperation will help successfully meet the assigned challenges of increasing mutual trade, competitive recovery of produced goods and intensifying industrial collaboration. ≡

**This memo photograph** depicted the ending of the 6th session of the Council of the officials of the Chambers of Commerce and Industry of CIS member states. The council became a new step in developing a common plan of actions aimed to create a common innovative economic space within the CIS region, to solve labour issues and give support to small and medium businesses



## Institute of Business councils pays for itself



Vladimir Strashko,  
vice president of RF CCI

In October 2008, the Czech-Russian Business council was set up in the Czech Republic, chaired over by the famous banker Jan Struz. The Business council includes about 20 Czech associations of entrepreneurs, including companies united in Czech TOP 100 Association, which play the most important role in the economic relations between Russia and the Czech Republic. The Business council aims to develop informal connections of Czech businesspeople with Russian colleagues.

Vladimir Strashko, vice president of RF CCI, noted that the institute of Business councils operating under RF CCI has paid for itself. It helps businesspeople from various countries establish direct contacts, create joint ventures and further investment cooperation.

The Russian business community backs the initiative of Czech partners and celebrities working on the creation of the Russian-Czech Business council. Many major Russian companies have already agreed to participate in it. Among them are Vneshekonombank, First Czech-Russian Bank, Evrazholding, United Machine-Building Plants, LUKOIL, GAZPROM Neft, Atomstroyexport, Mechel, GAZPROM Export, Aeroflot, State Transport Company Russia, TVEL, Russian Railways, International congress of manufacturers and entrepreneurs, etc.

## Department for Cooperation with business councils



Yuri Morozov, Head of the Department for cooperation with business councils

In the last several years, the Chamber of Commerce and Industry of Russia held business forums in Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan and organized Russian national exhibitions there.

At the end of 2008, an international conference took place in Bishkek, capital of the Republic of Kyrgyzstan. Among its attendees were about 150 representatives of public authorities, chambers of industry and commerce, unions of entrepreneurs and manufacturers, businesspeople and experts from all countries situated in Central Asia. The Russian delegation included representatives of the Administration of President of the RF, ministries, Executive Committee of CIS, Eurasian bank for development, CCI of Russia and Kyrgyzstan, top managers of INTER RAO UES, Rosatom, Gazprom and Zarubezhneftegaz.

The conferees discussed following issues: maintenance and development of business activity within the region, development of trade and investment in the crisis conditions, revelations of obstacles on the way to business activity development. They also dealt with development of common rules of doing business, labour migration regulation, development of cross-border cooperation, and realization of investment projects in such areas as energy, petroleum chemistry, manufacture, transport, communications, and services. One of the most important themes was conversion operations with national currencies and turning of the ruble into a stabilizing monetary unit.

## Department for International cooperation under RF CCI



Sergey Vasiliev, Head of the Department of international cooperation

The Chamber of Commerce and Industry of the Russian Federation (RF CCI) has been actively developing partnership relations with foreign countries' chambers and business associations and contributes to the integration of Russian entrepreneurship into the global economic space. Its activity answers interests of the Russian economy and complies with tasks set by the RF President in the "Concept of external policy of Russia." The main aim of the Department of international cooperation under RF CCI is to back and develop relationships between Russian entrepreneurs and business circles of foreign countries. It engages itself in establishing trade and commercial ties with business communities of EU, USA and Canada, strengthening positions of Russian businesspeople in Asian markets, giving an impetus to cooperation with business circles of Arab and Latin American countries. One of the most important goals is development of relations with Africa.

The Department organizes visits of Russian business missions to foreign countries, round table meetings, conferences, seminars, fairs, exhibitions, presentations, and other events, as well as contributes to forging direct contacts of Russian enterprises with potential foreign partners. It renders support to the RF CCI Committee on facilitation of foreign economic activities. The main target of this Committee is to unite efforts and coordinate operations of Russian public and business structures working in priority branches of the economy. The Department controls activity of 17 representative offices of RF CCI abroad. The Department expands cooperation with global and regional associations of entrepreneurs and commerce chambers, including the European Chamber, Confederation of CCIs of the Asia-Pacific region, International Chamber of Commerce, in which RF CCI members.

Kseniya GONCHAR, leading research officer of the Institute for analysis of enterprises and markets under the Higher School of Economics, and Andrei YAKOVLEV, pro-rector, this Institute's director, share their opinion about . . .

# Innovations and foreign experience



worth governmental program Yozma, under which the authorities financed 40% of the initial capital of ten private investment funds. As a result of this action, almost 100 venture investment companies arose in Israel by the end of 90's, with total assets under management of \$ 10 billion. These companies, in their turn, stimulated a rapid growth of new high-tech firms.

**2** Significant amount of state co-financing of privately managed projects. For example, in Chile and Israel, the volume of public co-financing was about 40%, concerning both innovation projects and expenses for market entry and implementation of new technologies. A principal aspect is that all co-financed projects were managed by private business or specialized intermediaries. In most cases, the superfluous state regulation of innovation activities leads to the collapse of joint private public programs. It was the case, for example, with the first Israeli governmental program Inbal that provided state guarantees for investments to private venture investment funds. Nonetheless, the Israeli government drew right conclusions and didn't commit the same mistakes in its Yozma program. From the early beginning, the state announced it wanted to privatise stocks of investment funds to be created and proposed to their managers an option for shares. The future has shown that these steps stimulated the rapid capital growth of and expanded operations of investment funds.

**3** Decentralization of state banking and forming of a number of development institutes which could use various channels of innovation activity support. Such experiments lowered

**T**he innovation activity of companies from developing economies is still low. One of the reasons for this is non-competitive environment inherited from the planning system. If countries with emerging economies want to integrate themselves into the global market, they have to search for new mechanisms to back and stimulate innovations.

One may draw on experience of new industrial countries, such as Chile, Mexico, Israel, South Korea, which managed to efficiently develop their innovation activity and increase competitiveness of their national economies, irrespective of all problems concerned with unfavorable business climate, lack of resources and heavy opposition from traditional institutes.

## How does the state participate in innovation projects?

When analyzing successful experience of new industrial countries, we can reveal some principles, on which these states based their policy of innovation stimulation and increase of economic competitiveness.

**1** Orientation toward more effective and modern models of innovation growth and private public partnership rather than to macroeconomic results of project's implementation. Although budget financing can't ensure innovation economic development, funds allocated by the government may urge innovation processes. For example, a catalyst for the Israeli venture industry was the \$ 100 million



risks of the government's general failure because of local misfortunes of concrete institutes and gave an opportunity to extend backing measures to the most effective ones.

**4** Integration of old innovation institutes to the new system of their gradual replacement by new ones. Although some of existing institutes are absolutely ineffective, they perform certain duties, so that their abolition may adversely affect the innovation system. In this regard, it looks reasonable to integrate old institutes in the new innovation activity backing system. A good example for that is South Korea where the government managed to achieve efficient network cooperation of old large industrial companies and state research institutes with universities and small innovation enterprises. Thanks to such cooperation, dynamical innovation clusters were formed around universities situated in old industrial agglomerations.

**5** Forming of trust to new institutes through personal reputation of their managers. Any policy will meet with success only if people this policy is addressed to give credence to it. The problem of confidence becomes truly nagging if the market is imperfect and the government actions are inefficient. In such conditions, economic agents usually don't expect anything positive from the authorities. It's considered that the trust to new institutes may be secured by means of transparency and openness of their activities. But there is another opportunity to raise confidence in them. That is to appoint in their management and supervisory bodies those officials and business-people who are held in high respect in the business community and by the citizenry.

**6** Realization of backing functions through business intermediaries. The risk of improper use of funds increases if state authorities directly cooperate with companies pretending to be sovereign-backed. In most cases, public officials are, as a rule, not skilled enough to estimate the real quality of proposed project and adjoined risks. Moreover, direct contacts between officials and business people searching for financial support increase the corruption risks. The experience of Latin

American countries illustrates that it's expedient to commission private intermediaries with the state backing function. Thus, in Chile, programs aimed to back innovations and increase the competition are implemented not by ministries or authorities but by 21 independent agencies most of which function as private non-commerce corporations holding contracts with the government.

**7** Rendering services instead of money. The lust for making unfair profits from cooperation with public authorities weakens when enterprises receive services instead of money grants. These may be staff trainings, assistance in licensing of products, rendering to companies of helpful research information or R&D results, providing of spaces (for example, to technical parks) on the territories of public higher education or research institutes on preferential terms, etc. It's important that such services should be also rendered by private companies as they show much better price/quality ratio.

**8** Support to cooperation and mutual education. Small and medium business is like a field where innovations are approved to be then integrated by major companies on the mass scale. However, the governments of new industrial countries can't compete with mature economies in the volume of cash resources they are able to invest in innovation development. In this connection, developing economies try to render financial support not to individual companies but to groups of them or industrial associations.

## Some conclusions

Foreign experience shows that, despite traditional skepticism, the industrial policy in emerging and transition economies can meet with success if governments of these countries adhere to some appropriate principles in the innovation stimulation policy. For example, the state should not back concrete sectors of branches of the economy but stimulate all the economic agents to create innovations and enter new market and deliberately carry out experiments with development institutes.

In many cases, successful institution-

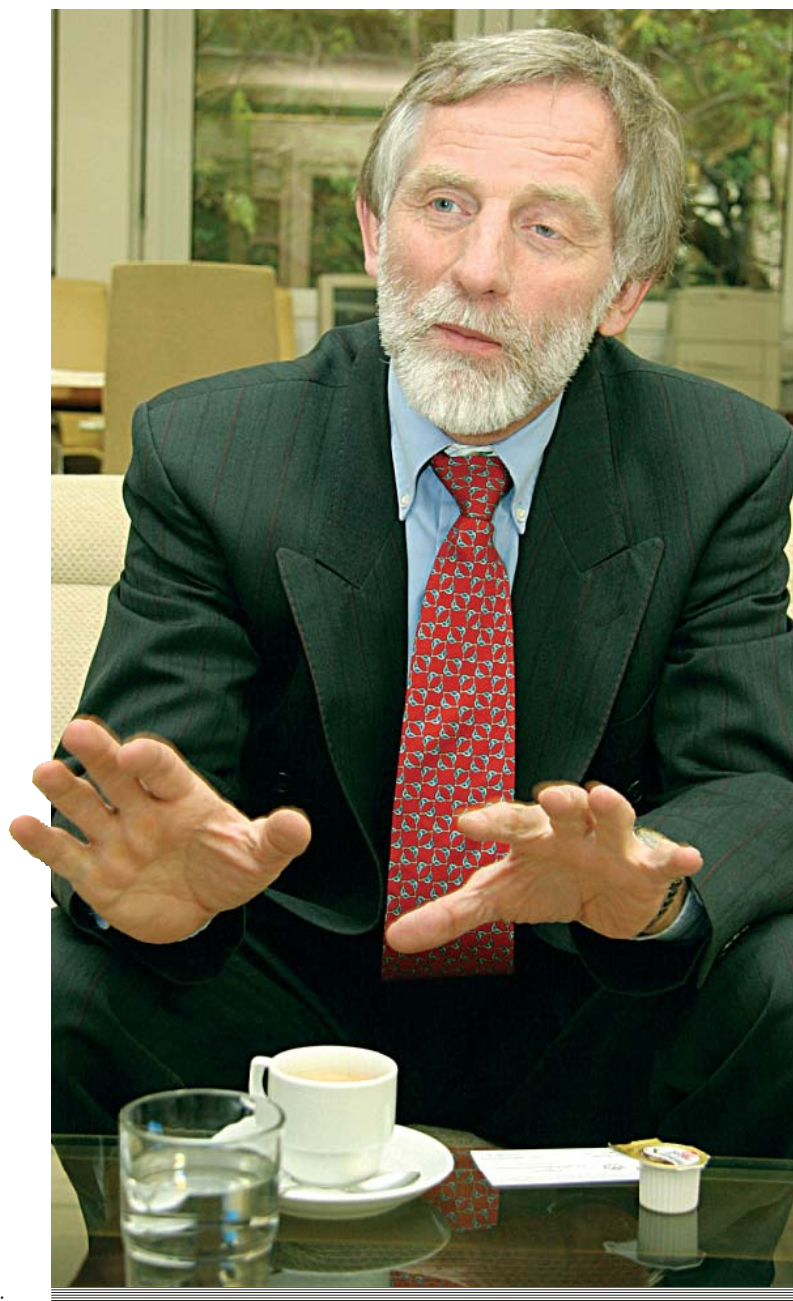
al solutions turn out to be unique for the country and even for the present time. However, one also has to learn lessons from such experience in order to find their own approach to innovation development. We believe that Russia already has a real opportunity to realise some local innovation programs, such as:

- ▶ creation of the Fund of funds (for the purpose of stimulating the venture industry development), which should not only accumulate money for the venture industry but also provide management expertise for commerce projects. The lack of resources is a less important restriction rather than the absence of project management technologies. Exactly the Fund of fund could be a generator of needed experience and skills.
- ▶ programs of export backing for small and medium business, which provide for partial reimbursement of costs for establishing contracts with foreign partners, participating in international exhibitions and trade fairs, initial marketing expenses, etc.
- ▶ support programs for ISO 9000 and ISO 14000 certification for small and medium businesses (with partial budget co-financing and rendering of grants not to an applicant, but to an international agent which carries out certification).
- ▶ support programs for regional innovation clusters, which should be aimed at "university cities" with great scientific and educational potential. Such programs may be based on contest selection and co-financing of projects developed by municipal authorities, universities and/or academic institutes jointly with business structures. ≡



# Austrian export to Russia exceeds import for the first time

Interview with **the Austrian Commercial Counselor to Russia Mr. Johann Kausl**



**P**resently, Russia and Austria are developing their business relations very actively. That's why Austria became one of Russia's most reliable partners in united Europe. Austrian business circles regard Russia as a very attractive market, and vice versa. The volume of mutual investments is growing, new joint ventures are being created.

**– Mr.Kausl, how could you characterize the modern commercial economic relationships between Russian and Austria? In what way did they change in the recent years?**

– Russian-Austrian commercial economic relations are developing successfully and progressively. Both parties are interested in strengthening our contacts. Let's look at some figures. In 2007, the amount of Austrian export to Russia grew by 17% and reached 2.600

billion euros, whereas the volume of import from Russia totals 2.400 billion euros. Thus, export to Russia surpassed import from it for the first time during last fifteen years! This happening looks much more surprising if to consider that about 80% of products imported from Russia are energy commodities which are steadily rising in price.

Naturally, even good partners sometimes face some problems. I mean the coming into force of agreements on the simplification of the visa regime between Russia and the European Union. As now, any foreigner who has a working visa can stay in Russia no longer

than 90 days. This caused some difficulties not for businesspeople, but for Austrian specialists working for Russian companies by long-term contracts.

**– What Russian regions Austria is most actively cooperating with?**

– The cooperation with Russian regions has come to the forefront for us. Currently, it's not enough for us to invest only in Moscow and St.Petersburg economic development. Austria has established strong ties with up to 50 regions of the RF. First of all, the Moscow and Leningrad regions are worth mentioning. At the same time, a

Major part of building materials produced with the assistance of Austrian companies is used inside Russia, and only the rest is sold abroad

large part of our capital investments goes to remote regions and areas. In the Kaluga region, for instance, a coffee processing factory and a furniture production plant are under construction. Austrian company Hawle is building industrial enterprises in

relations with Russian businessmen. Notably, the Intergovernmental Commission on Cooperation between Austria and Russia and the Russian-Austrian Business Council under the Chamber of Commerce and Industry of Russia



“ In 2007, the amount of Austrian export to Russia grew by 17% and reached 2.600 billion euros, whereas the volume of import from Russia totals 2.400 billion euros”

want to stop. In the near future, Kronospan will take part in building of a construction enterprise in Perm. Wienberger has already launched a brick production factory in the Vladimir region and is currently planning to build another one in Kazan.

It should be noted that major part of building materials produced with the assistance of Austrian companies is used inside Russia, and only the rest is sold abroad.

**– Mr.Kausl, you have been working in Russia for a long time. What impression did Russia and Moscow made on you as you came to our country for the first time?**

– I undertook my first visit to Moscow as far as 1979. At that time, Moscow looked absolutely different as it does now. Today, the Russian capital doesn't differ from other large western cities. However, at that time, it was much easier to work because one could solve all possible problems in Moscow.

In the last years, the situation has changed. The business activity increased in the whole country, especially in the regions. It was really surprising for me. That's why the Austrian commercial agency had to make some adjustments to its operations. We gambled not on attraction of native Austrians to our staff, but on creation of new regional marketing bureaus and mobile offices with exclusively Russian employees. Their main aim is to collect information about goods being in high demand in the Russian market, organise Austrian business missions and prepare the ground for conclusion of contracts. If to sum up, our work became more troublesome but also more interesting. ≡



**The share of Raiffeisen Bank are some of the largest investments in the Russian economy.**

The cooperation of Russia and Austria in the financial and banking spheres have the best prospects.

Lipetsk. Last year, it was decided to increase investments in the Republic of Komi. Thanks to Austrian investors, the productivity of Syktyvkar-based pulp-and-paper mill will grow by 50%. Magma Industries has been closely cooperating with the Togliatti motor works and producing car parts in Kaluga. Another Austrian car company Ungerstahl also intends to launch its business in Kaluga. Our companies are represented in the Ivanovo and Kostroma regions. The Austrian business pays close attention to the Ural and Volga regions which are famous for the metallurgy and engineering industries.

Another very interesting feature for Austrian investors is the Sochi-2014 Olympic Games. We want to take part in the organization process through supplying of various equipment and construction materials. Recently, the Austrian business mission consisting of representatives of over 60 companies has visited Krasnodar and Sochi and established partner

are playing an important role in building up strong and mutually beneficial relations between our countries. The main goal of the Business Council is to establish direct business contacts between Russian and Austrian entrepreneurs, heads of companies and production enterprises of two countries.

**– Cooperation in what branches is most promising?**

– The financial and banking sectors are. First of all, I would mention two banks – Raiffeisenbank and Bank Austria which make the largest investments in the Russian economy. Then goes the insurance segment, where Wiener Staedtische Versicherung operates in.

The cooperation in the building industry also performs well. In my opinion, it's one of the most rapidly growing branches of the Russian economy. Thus, the building and reconstruction company Strabag has been operating in Moscow for several years. The construction of a cement works in the Leningrad region is also worth mentioning as Austrian investments in this project will amount to 150 million euros. Mayr-Melnhof invested 45 million euros in the construction of a lumber mill in the same region.

In Yegoriyevsk, Kronospan is engaged in production of wood chipboards. Total investments this company has made in the Russian economy have already come to 400 million euros, but it doesn't

Magma Industries has been closely cooperating with the Togliatti motor works and producing car parts in Kaluga.



**Alexander Bondar,**  
Information and Public Relations department  
of the Russian Chamber of Commerce and Industry



# Let's track three new “silky ways”!

Joint efforts of Russia and South Korea have already brought some concrete fruits: this year's bilateral trade can reach a record volume of \$20 billion, said Yevgeny Primakov, President of the Russian Chamber of Commerce and Industry at the Russian-Korean business forum that took place at the World Trade Center in Moscow. The event was organized by the Chamber jointly with the business council Russia – South Korea and the Korean international trade association in the framework of South Korean President Lee Myung-Bak's official visit to Russia.

**T**he cooperation between Russian and South Korean businesspeople is successfully developing in the energy sector that represents a large field for a joint work. According to Primakov, the Siberian and Far Eastern joint projects should be marked out as a highly important matter because huge attention is drawn to the very development of these regions. The transport sphere sees serious changes, as well. To be mentioned is a prospective project of railways junction between the Republic of Korea and the Korean People's Democratic Republic for a through traffic with a passage to the Trans-Siberian railroad highway.

A very important issue is mutual investments although their volume has been, recently, not rather large, said Eugeny Primakov. But the situation is changing. We welcome such well-known companies as Hyundai, Samsug, Kia, etc, to enter the Russian market actively.

It should be emphasized that South Korean businesspeople cooperate with the Russian regions very intensively. The South Korean Chamber of Commerce and Industry coordinates the activity of 71 regional chambers of its country. Russia has 171 territorial chambers. Thus there are all the opportunities and preconditions to develop interregional relations also at the municipal level with the support of the Chamber.

The cooperation mechanism successfully functions at governmental and business levels, as well. A good example of this is the business council Russia – South Korea that operates under the Russian Chamber of Commerce and Industry. But the growing cooperation scale demand new mechanisms. The basic organizations of business circles in both countries – the Russian Chamber of Commerce and Industry, the Russian Union of industrialists and Entrepreneurs, the Korean international trade association, and the Federation of Korean industrialists – have decided to coordinate their actions and sign a protocol of intention, said Primakov. The cooperation, he emphasized, will certainly gain a lot from large participation of small and medium-sized enterprises. The Chambers of Commerce and Industry of both countries are about to launch a joint project on internalization, in other words – on promoting Russian small and medium companies on the Korean market and vice versa. President of Korean Republic Lee Myung-Bak said he was going to pursue a bold investment policy in which a

serious role is supposed to be given to Russia. My experience as a former businessman, he claimed, as well as knowledge of the problems and opportunities of Siberia and Far East, accumulated during my visits to these regions, allow me to talk with solid confidence about extreme profitability of combining Russia's unlimited opportunities, including its intellectual potential, with South Korea's technologies.

Primakov presented the program of three new "silky ways" by analogy with the Great silky way, which was used to connect the East with Europe many centuries ago.

First, it is the railroad "silky way". Its goal is to provide through railroad traffic over territories of South and North Korea with a passage to the Trans-

ization process of Russian and Korean small and medium enterprises.

As a part of the business forum, the Moscow WTC hosted an exhibition of a photography artist Sasha Kharadze who presented one of her works to President Lee Myung-Bak.

S.R. Cho, chairman of the Federation of Korean industrialists, pointed out a rapid growth of the Russian economy during the past 10 years, its world-leading positions in respect of natural resources, increasing experience in applying high technologies in strategically important industry branches. In his belief, these achievements results directly from political will of the Russian government. Korea considers it as necessary to support Russia's soonest entry to the World Trade Organiza-

tee under the RF CCI, reminded the Korean forum participants that "the whole periodic table" is produced in Russia on an industrial scale and the amount of arable lands exceeds all arable lands in Europe taken together. When talking to potential Korean investors, he emphasized prospective opportunities for foreign business in Russia. 30% of Russian citizens have higher education, so there should be no acute problem with skilled staff. Natural resources are relatively cheap, energy and gas prices are low, and the "tax pressure" is not too heavy. Besides, when participating in significant projects you can be released from some debts, in particular, from the land tax, noted Danilov-Danilyan. Import duty for equipment and some export duties have been cancelled in Russia, and the recently adopted part IV of the Civil Code protects the rights of intellectual property. We created two special economic zones of industrial-production type, four tech-adoption and seven tourism-recreation zones, and we are also going to form some seaport economic zones, said he.

Hwang Ek Cho, president of the Korean trade-investment promotion agency, Alexey Zhiganov, deputy general director of Russian Railways trade house, Jae Kuk Cho, president of Hyundai motors company, as well as some other speakers also shared their personal view on economic cooperation development between two countries. ≡

**President of the Republic of Korea Lee Myung-Bak and president of the Russian Chamber of Commerce and Industry Yevgeny Primakov during the Russian-Korean business forum held on September 29, 2008**

## “ A huge transport corridor is able to halve the transport time

Siberian railroad highway and thus connecting together the Atlantic and the Pacific oceans. A huge transport corridor is able to halve the transport time (today's shipping time from Europe to Korea or Japan makes almost 40 days).

Second, the energy "silky way". Russia possesses resources it wants to make profitable use of, – and Korea has something for efficient production and processing of these resources.

The matter is first of all about Siberian and Far Eastern regions where Russia needs strategic partners to cope with these prospective, but hard-developing regions.

The third "silky way" is the so called "green revolution": joint work on nature protection, foresting, water resources safekeeping and sparing use thereof for the needs of economy, as well as development of high-efficient agriculture. The both sides signed an intention protocol of starting Russian-Korean business dialogue between the Russian Chamber of Commerce and Industry, Russian Union of Industrialists and Entrepreneurs, Korean international trade association, and Federation of Korean industrialists, as well as a Declaration of cooperation development between the Russian CCI and Korean CCI in regard of promoting the international-

tion because everybody would benefit from it. Together with Russia we would be able to make products with a high competitive ability, said S.R. Cho. He is convinced that an important direction of the two countries' cooperation in the future would be creation of new products, melting together Russia's intellectual potential and Korean diligence, Korean technologies.

Anton Danilov-Danilyan, chairman of the investment policy commit-





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## Mikhail Lermontov:

# “I was happy there...”

Photo report by Sergey GUBIN  
from the State open air museum “Tarkhany”.

**T**he name of the Great Russian poet Mikhail Lermontov is inextricably associated with his family estate Tarkhany. He was always pleased to return to Tarkhany recollecting the days of his childhood. Here he experienced his first pleasures and first painful emotions.

After Lermontov’s mother had died, the parent house was sold and the new one was build not far from it. The poet described his home as “being like a common manor house, with mezzanine, made from wood, painted yellow”. The balcony commands a

picturesque panorama of the Big pond. Young Lermontov was given the freedom of house.

Here he lived through all his strongest impressions. His childhood passed in close communion with nature. The mansion house bosomed in trees, fresh and serene air, endless spaces, sundowns and sunrises, warm rains and white snow-covered flatlands – this was his “delightful realm”. In Tarkhany Lermontov had everything one can wish for oeuvre – house he knew from childhood up, books, convenient cabinet, and, naturally, his darling grandmother who raised Lermontov after his mother’s death.

Talented in various arts, Mikhail Lermontov could become a painter, or a musician, or a mathematician. He is an extraordinary poet with extremely Russian soul, who is loved and respected for heartfelt sincerity, emotionality of verses, civil manhood, and purity of feelings and doings. However, he decided to become a professional military man and was enrolled in the military school on November 13, 1832. Then he fought a duel against a French ambassador’s son Ernest de Barant who insulted Russians’ national dignity by word. Lermontov answered him: “We, Russian, allow offending us less than other nations”. Of course, he understood that the duel is a big risk because he could be deprived of his officer rank and title of nobility. But the tsar Nikolas I decided to mitigate Lermontov’s punishment because he “vindicated honour of a Russian officer”. Lermontov was sent to war to Caucasus.

There Lermontov quickly gained the character of a man of courage and was up for decoration many times. The troop he served for could be compared with the modern Special Forces. But he always dreamt of creative work, planned to issue a new literary magazine and write a novel about life in Caucasus. That’s why he went to Petersburg and sent in resignation, but was refused. Lermontov had to return to Caucasus, to his troop.

He was never to come from war. On July 15, 1841, 27-year old Lermontov was killed near the Mashuk Mountain not far from Pyatigorsk, having lost another duel...

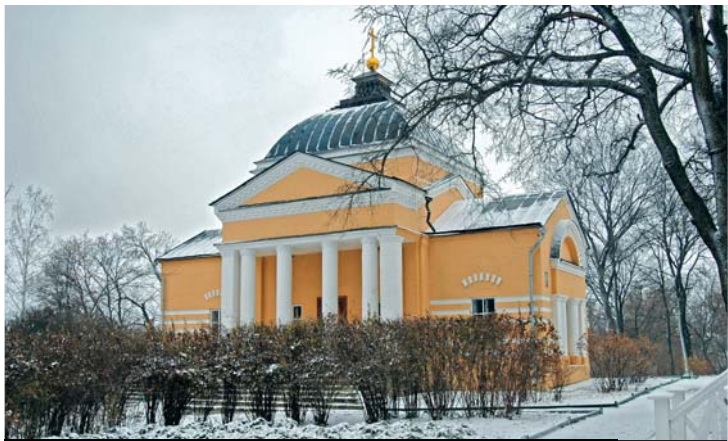
Talented in various arts, Mikhail Lermontov could become a painter, or a musician, or a mathematician



Firefight in Caucasus Mountains. Picture by Mikhail Lermontov.



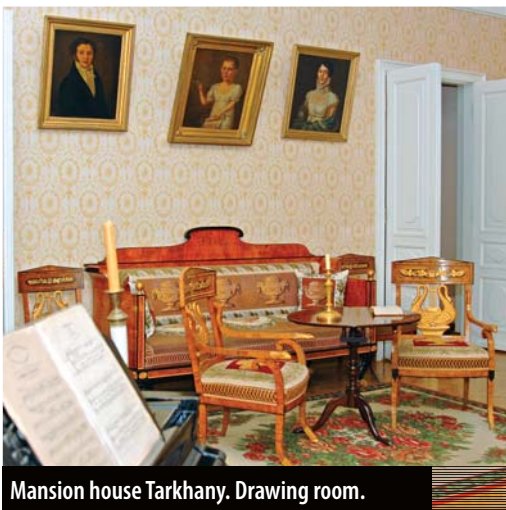
Tarkhany, Russian nature.



Tarkhany, St. Mary of Egypt's Church



Mansion house Tarkhany. Lermontov's cabinet.



Mansion house Tarkhany. Drawing room.



Tarkhany. Small bridge over Big pond.



Tarkhany. Mill.



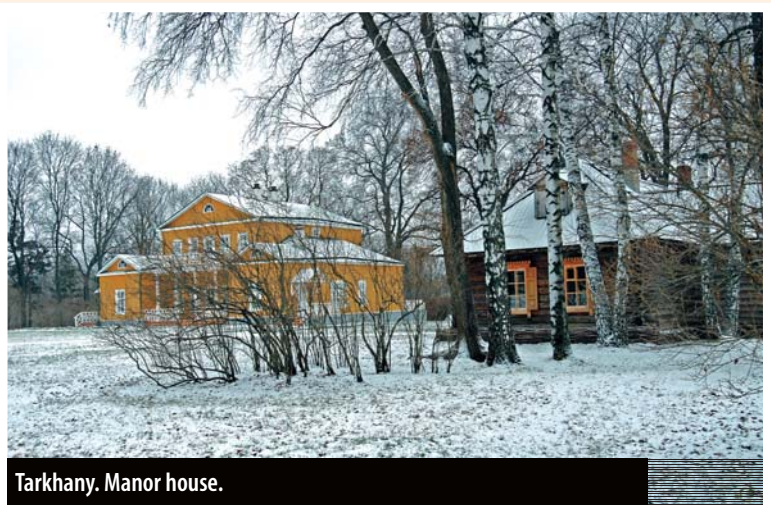
Open air museum Tarkhany. Old Russian handicrafts.



Open air museum Tarkhany. Old Russian handicrafts.



Open air museum Tarkhany. Old Russian handicrafts.



Tarkhany. Manor house.



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