

## Conference

### **‘Russia-Europe, a partnership for the future ?’ in collaboration with the Catholic Universities of Leuven and Louvain**

**Palais des Académies, Brussels, 5th of November 2010**

## **Business and Investment Opportunities in Russia**

**Talking points by Bernard Snoy**

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On its modernisation and transition path Russia faces a number of fundamental challenges cutting across sectors:

1. The economic downturn and a fall in global commodity prices emphasized the importance of **diversification of output and exports and more generally of the emergence of a knowledge based economy** for sustainable long-term economic development.

Diversification will in turn rely on both innovation and further integration into the world economy, as well as addressing the infrastructure bottlenecks.

2. Lower global demand also highlighted the **need to bolster competitiveness** of the Russian industry through market-based restructuring and improved production efficiency, in particular energy efficiency where there remain large gains to be made, and has emphasised the importance of developing the Medium and Small Scale Enterprise business sector.

3. The sharp economic slowdown also highlighted the importance of strengthening the financial sector and **capital markets development**, and exposed the current fragility of the rouble markets, as the de-dollarization trend of previous years went into reversal.

4. In the **industrial sector**, competition in the Russian markets is hindered by substantial strategic uncertainty, a high degree of industry concentration, substantial barriers to entry and insufficient **controls over possible non-competitive behaviour by important players**. Achieving improvements in these areas through further market-based restructuring in individual sectors presents a substantial challenge.

5. The government still to make up its mind on the **degree of state involvement in the economy**. The state has maintained or enhanced its control in a number of key sectors considered to be of strategic importance, with the intention of building national champions that can compete for market share internationally. **Consistent and even-handed protection**

**of property rights** remains an issue, with several high profile cases of abuse of shareholder rights garnering international attention and affecting investor sentiment.

6. Remaining weaknesses in the institutional and regulatory framework and in corporate governance practices need to be addressed to improve the investment climate and revive foreign direct investment. Problems in **streamlining of bureaucracy and fighting corruption** stem largely from the steady growth in the size of the bureaucracy, perceived deficiencies in the professionalism and integrity of its staff, its interaction with private businesses and households and the lack of political will to tackle the problem at the root.

7. Despite some notable improvements in recent years and a number of initial public offerings (IPOs) on international stock exchanges by large Russian corporate, there remains a **substantial scope for further improvements in the areas of corporate governance, transparency and standards of business conduct.**

8. While substantial legislative reforms are taking place in Russia, their implementation is still affected by inconsistent application of the laws by the federal, regional and municipal authorities and by the judiciary . **Further implementation and enforcement of the legislation remains a priority.** For investors, enhancing the current regulatory system notably with regard to investment protection remains an essential element to improve the overall investment climate.

9. Deepening Russia's **integration into the global economy** and advancing its membership in the World Trade Organisation is an important anchor to promote competitiveness of domestic industry and services and to strengthen investor confidence. WTO membership would also lessen trade frictions by providing a rules-based framework and dispute settlement mechanism for measures such as the recently introduced trade restrictions.