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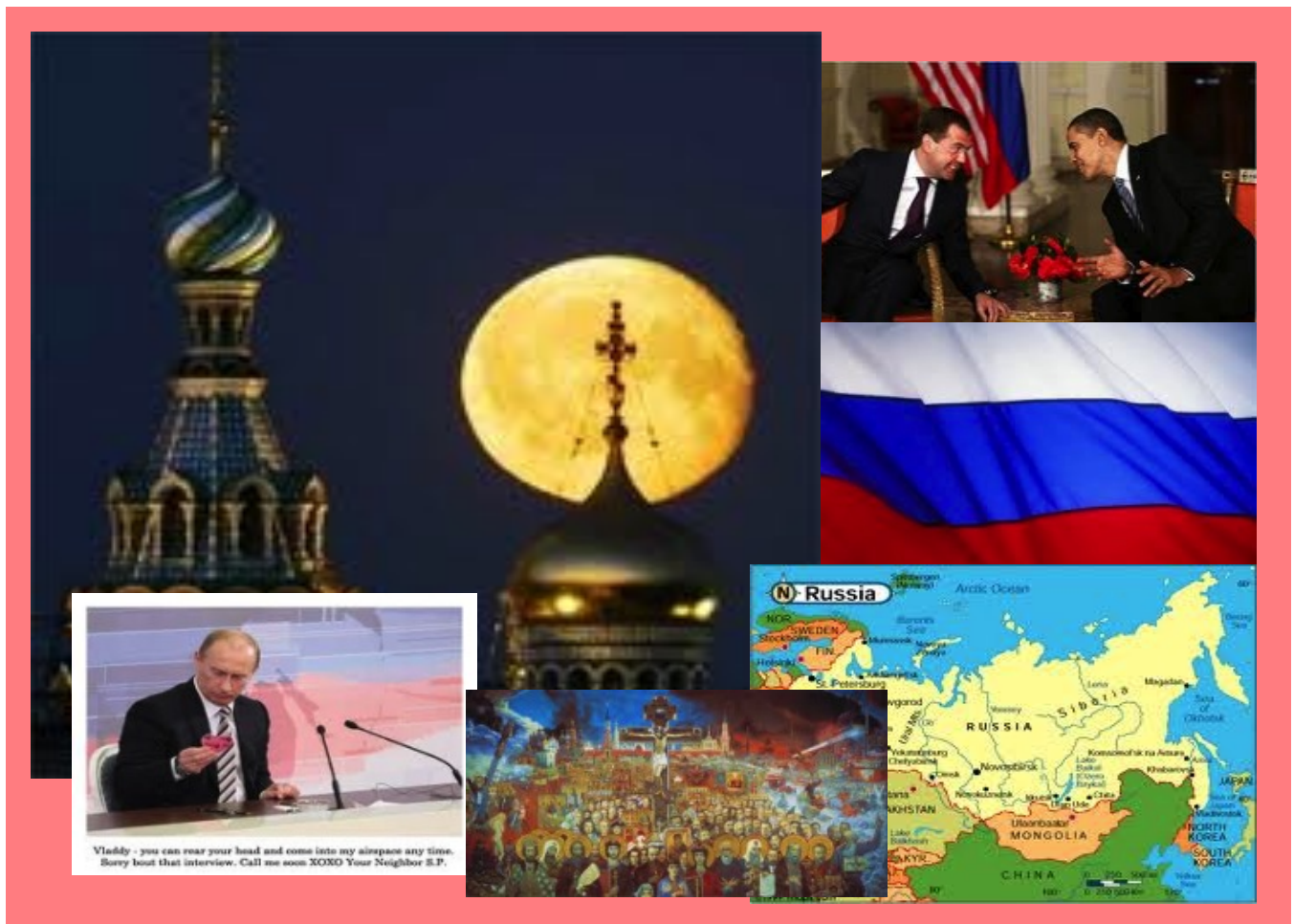
School of Humanities

MA Black Sea Cultural Studies/Politics – Economy Stream

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Master thesis: *The competitiveness of the Russian economy compared with the average performance of the European Union Member States (EU27) and the countries of the Black Sea region (BS10), in a globalized environment, based on indicators GCI and EDB*



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Thessaloniki, September 2011

Abstract

The end of the Second World War saw the division of the world into the western and eastern blocs, and the beginnings of the Cold War, which did not end until the collapse of communist rule in Europe (i.e. the disintegration of the Soviet Union) in 1991. These events excluded almost half of humankind from the latest social and economic developments in the West, with the result that the changes of all kinds (political, economic, cultural) that have occurred since the collapse of the former Soviet bloc have happened at what might be described as breakneck speed.

The countries (the former Soviet Republics) which made up the Soviet Union found themselves facing huge challenges, the most difficult of which was the twofold challenge of their economies. On the one hand they had to develop national economies, based on the workings of the free market, abandoning the central planning which had hitherto been at the heart of their economic activity, and on the other hand they suddenly found themselves in a different economic reality (*globalization of markets*), with which it was much easier for the western economies to cope. Adaptation of these countries to the new conditions presented all sorts of problems and had a significant impact on their social structures, while in many cases these countries are still struggling to adjust (*transition economies*). The changes in economic planning led to large-scale privatization, since most sectors of the economy in these countries had been under state control and were obliged to move rapidly into private ownership.

This paper presents a study of the economy of Russia (Russian Federation) in the aftermath of the break-up of the Soviet Union, as a country now fully exposed to global economic events and forces. There have been found positive aspects of Russian competitiveness and entrepreneurship, as well as negative aspects of the country. The survey data which have been used for writing and completing of this study showed that Russia will become a “superpower” in the broader Asian region and beyond. To make this possible the Russian government should pay attention to specific areas, such as the operating institutional framework, government's interference, the corruption and measures which will support the welfare state of Russian Federation.

Introduction

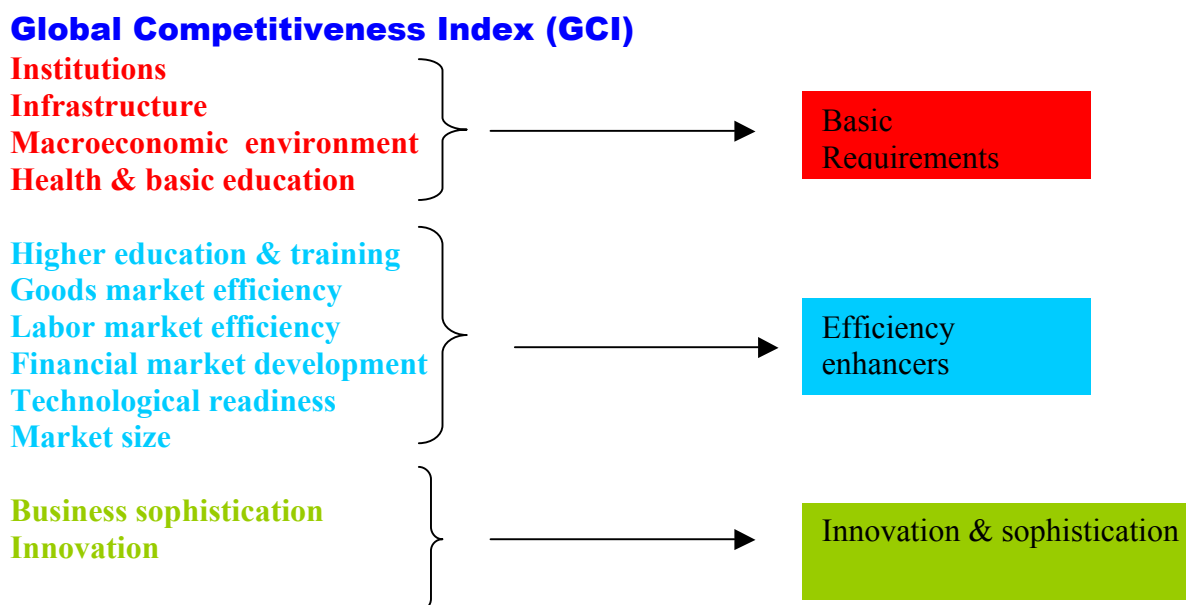
The abandonment of central economic planning meant that countries in the former Soviet bloc (as well as Russia herself) were now part of the global economic system. Their growth and competitiveness is no longer based on state subsidies and individual industrial policies, which led to the substitution of imported products, nor on the imposition of tariffs and granting of subsidies to domestic businesses intended to protect the national economy.

The newly independent republics must now take a different road, that followed by the economies of the free market, which are governed by the unforgiving rules of competition and lead to the internationalization of activities, to economies of scale and to more effective and profitable production.

We shall attempt, more specifically, to study, analyze and compare the *competitiveness* of the **Russian Federation** with the average performance of the 27 EU Member States (**EU27**) and the countries of the Black Sea region (**BS10**). Our analysis will rest on the identification and detailed examination of those factors which influence, positively or negatively, the competitive environment of the Russian economy (competitiveness factors).

To this end the study will make use of both the academic literature and the special, internationally accepted indices, such as the **Global Competitiveness Index (GCI)**, as well as those which indicate the capacity for growth of businesses in a particular country (regulatory environment), such as the **Ease of Doing Business Index (EDB)**.

These indexes cover a whole range of contributing factors, as listed below:



Easy of Doing Business (EDB) Index (9 pillars)

Starting business

Dealing with construction permits

Registering property

Getting credit

Protecting investors

Paying taxes

Trading across borders

Enforcing contracts

Closing a business

The first chapter will offer a brief historical review of the country, with, for example, the reasons which led to the disintegration of the Soviet Union and the current political situation in Russia. The next chapter will provide the latest academic explanations for the phenomenon of globalization in its most recent manifestations (both positive and adverse effects).

In chapters 3 and 4 an analysis of the concept of competitiveness occurs, with the assistance of the two indices mentioned above, the GCI and EDB, analysing the individual factors, also cited above, which affect competitiveness. Also, besides the above, a quick analysis on Russia's economy, according to the Maastricht criteria is exposed.

Furthermore, there is a detailed presentation of each factor/index, with an attempt to emphasize the interaction between them and how they are compared with the corresponding average figures for the **EU27** and **BS10** (part E and F).

Finally, the paper will end with the hot spots (Russia's advantages and key challenges), followed by a radical proposal and a bibliography. There will also be a special supplement with tables for all the factors comprising the **GCI** and **EDB** indices.

RUSSIA

Country Profile

Official title: Russian Federation

Type of State: Presidential Federal Republic, (in 1993, adopted the new Constitution)

Capital: Moscow (8.8 million inhabitants)

Other cities: St. Petersburg (4.6 million), Novosibirsk (1.4 million), Nizhniy Novgorod (1.3 million).

Area of country: 17,075,200 km²

Total population: 140.6 million. (according to the 2009 Census).

Neighbouring countries: Finland, Latvia, Poland, Norway, Lithuania, Estonia, Belarus, Ukraine, Georgia, China, Azerbaijan, Kazakhstan, Mongolia, North Korea.

Composition of the population: approximately 73% urban and 27% rural population.¹

Russian 79.8%, Tatar 3.8%, Ukrainian 2%, other 14.4%.

Religion: Russian Orthodox, Islam, Judaism, Roman Catholicism, Protestant, Buddhist, other.

Language: Russian (official); more than 140 other languages and dialects.

The Russian Federation was created in 1991 and emerged from the collapse of the USSR².

Russia's History at a glance

The history of Russia from 1922 to 1991 is the story of the Soviet Union, which was ideologically based on the Russian Empire before the Treaty of Brest-Litovsk³. Socialism has seen many changes in Soviet history - the mixed economy, diverse society and culture of 1920, the economic management and repression of Stalin, and the era of stagnation in 1980. The Soviet Union was based on a one-party state under the communists (Bolsheviks) in 1918 (Mazower, Mark, 2001). The many weaknesses in the economic, political and social structures and the failure of leaders to reform, brought the collapse of the Soviet Union (D.A. Filzer, 1994).

The regime of President Gorbachev ended Soviet domination and led to the repeal of repressive policies and controls. Nationalist movements emerged and grew in the republics of the USSR.

In 1990 Boris Yeltsin, a prominent nationalist and reformer, was elected President of Russia.

The USSR dissolved on the occasion of a possible signature of agreement between Gorbachev and Yeltsin, and eight other republics to have the sharing of power by Soviet hard-liners. Russia, with

¹ www.ceoe.udel.edu/blacksea/geography/index.html

² http://www.russiab2b.gr/index.php?option=com_content&view=article&id=7&Itemid=41

³ The **Treaty of Brest-Litovsk** was a peace treaty signed on March 3, 1918, at Brest-Litovsk (now Brest-Berarus) between the RSFSR and the Central Powers, marking Russia's exit from World War I. While the treaty was practically obsolete before the end of the year, it did provide some relief to Bolsheviks who were tied up in fighting the civil war and affirmed the independence of Finland, Estonia, Latvia, Belarus, Ukraine, and Lithuania. In Poland, which was not mentioned in the treaty, its signing caused riots and protests, and the final withdrawal of any support for the Central Powers. (Mazower, Mark, 2001).

Ukraine and Belarus, signed up for the establishment of the Commonwealth of Independent States (CIS). Yeltsin gained control of the government and assumed the office of the USSR at the United Nations⁴.

Apart from its structural problems, and the differences between the President and Parliament, Russia also had to address the economic collapse of 1998. President Yeltsin suddenly resigned in 2000 and power was transferred to the unknown prime minister (former head of the KGB (now FSB)) Vladimir Putin⁵.

International observers have monitored Putin closely and seen his growing influence on Parliament, society and the former Soviet Republics. Hence, he has complete control of the state, and has introduced enormous structural changes to the state apparatus⁶.

There was also re-nationalization of large companies, primarily in the energy sector, limiting the ability of western companies to act without control in Russian territory⁷.

In 2008 Dmitry Medvedev (former President of Gazprom) was elected President of Russia. Since the crisis in 1998 Russia has enjoyed robust growth, fully exploiting the great natural resources available for technological and industrial development.

Globalization

⁴David Pryce-Jones (20-03-2000). "Boris on a Pedestal", *National Review Online*. <http://article.nationalreview.com>, Retrieved 22-07-2007. "In the process he engaged in a power struggle with Mikhail Gorbachev..."

⁵CNN [Apologetic Yeltsin resigns; Putin becomes acting president](#). Written by Jim Morris. Published December 31, 1999.

⁶"[Putin's hold on the Russians](#)". *BBC*. 2007-06-28. <http://news.bbc.co.uk/2/hi/europe/667749.stm>. Retrieved 2007-07-22. "In the 2000 election, he took 53% of the vote in the first round and, four years later, was re-elected with a landslide majority of 71%."

⁷"[Putin's hold on the Russians](#)". *BBC*. 2007-06-28. <http://news.bbc.co.uk/2/hi/europe/667749.stm>. Retrieved 2007-07-22. "But his critics believe that it has come at the cost of some post-communist democratic freedoms.", "2003: General election gives Putin allies control over parliament".

Former Eastern Block in a Globalized World

Since the end of the Cold War globalization⁸ has been the most important feature of international economic and political relations around the world. In particular, globalization in the economy has created some fundamental changes in trade, finance, and foreign direct investments by multinational companies.

Many western scholars believe that this is the victory of the theories which, for many years, fought against non-democratic, non-capitalist positions – theories now adopted by countries from all continents.

Experts believe that a major change in the world economy is taking place because of the gradual transformation from an international economy dominated by states, to a world economy dominated by the markets. So, the economic model of the liberal market is also dominant at the social level, whilst a gradual assimilation of the principles of liberalism is occurring. This means that the hierarchies, traditions and values of the existing institutions, inconsistent with the principles of liberalism, will be overcome. Historically, liberalism, through globalization, would deal a powerful blow to sovereign states.

The victory of liberalism was marked by the philosopher Fukuyama as ‘The End of History’. Fukuyama clearly meant the mutation of the old claims and struggles into a different economic and social model. He believed that the western model is continuously improving and will be extended to all societies, ‘... the World History of mankind directed towards liberal democracy (F. Fukuyama, 1993).’

In contrast, the realists are not convinced that the predominance of the free world and the economic expansion of markets is the component that will create the ‘global village’ and will support liberal democracy and civil society.

For Huntington, who does not challenge the dominance of the liberal economy and new technologies, Western culture and what this means ‘... do not create a global culture. This argument is neither important nor relevant (S. Huntington, 1996).

Instead he believes that the collapse of communism in the former Soviet Union and its adaptability in countries like China and Vietnam, show that these societies could not join either in Western

⁸ The term ‘globalization’ is used by many people and has many different meanings. For the majority the term include three main elements such as: The **rapid movement** of goods and capital around the world (there are no borders for the movement of goods for example in Europe and America), **easier and faster movement** of large numbers of people from country to country for various reasons, for example unemployment, conflicts, and finally the use of the incredible **evolution of technology** (internet, satellite television, broadcast) for the seamless movement of information, knowledge and news simultaneously throughout the world at the same time. The first references to this term were made by Marshall McLuhan and Quentin Fiore, who wrote in 1967 the book *The Medium is the message, An inventory of effects*. This term was officially recorded in the English language in 1983 by the American economist Theodore Levitt in his book *The Globalization of the market, An evaluation after Two Decades*, by Rawi Abdelal & R.S. Tedlow, Harvard NOM Working Paper, No. 03-20, at:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=383242, 20-04-2011

ideology or in a liberal republic. ‘The western societies, who believe that it is possible, will be taken by surprise by the creativity, the toughness and peculiarity of non-western societies (S. Huntington, 1996).

There is no doubt that both sides, so far, have presented both positive and negative results. It is commonly known that many countries have already joined western civilization and its institutions. Furthermore, they have gained experience of democracy, especially the former Soviet Republics in central and eastern Europe.

Generally speaking it cannot be claimed that during globalization the states have betrayed their sovereignty and rights. On the contrary many states have become authoritarian, with one-party political systems. Till now, the democratisation of states has been an unstable process with many variations, such as the ‘coloured revolutions’, that have developed in several societies in the CIS (former USSR) and have also created strong pressure for change⁹.

The age of globalization

The aftermath of the Second World War witnessed a reorganization of war-torn Europe, whose battlefields had witnessed scenes of incredible savagery, with enormous losses in human life and material infrastructure. To avoid a recurrence of such calamities, the major powers of the time set about reorganizing the whole global political and economic system.

Political dialogue led to the founding of the *United Nations* – the successor to the League of Nations, which had proved powerless to protect the world’s people from the outbreak of the Second World War. On the economic level, all the western allies agreed to promote greater global economic integration, in the belief that in the long term the dogma of protectionism had undermined global productivity.

Tariffs began gradually to be reduced and markets began to be opened up, allowing free movement of products, capital and technology. In pursuit of these objectives, supranational bodies were founded like the *International Monetary Fund*, the *World Trade Organization* and the *World Bank*, their workings and activities transcending national policies or transnational disputes, facilitating and developing new economic policies.

The partition of post-war Germany and the entrenchment of the Cold War in Europe left a large portion of the world’s population divorced, for several decades, from global developments. After the collapse of the Soviet Union, however, the political and economic landscape of Europe underwent

⁹Beissinger, R.M., (2007), “*Structure and Example in Modular Political Phenomena: The Diffusion of Bulldozer/Rose/Orange/Tulip Revolutions*”, *Perspectives on Politics*, vol.5, p. 259-276, at: <http://journals.cambridge.org/action/display/Abstract?fromPage=online&aid=1020876>

dramatic changes, with the former Soviet republics moving from state protection of monopolies to the open competition of free markets, operating under new terms and conditions (Ball *et al.*, 2006). Naturally these developments had significant effects on society, with adaptation to the new world order bringing major difficulties, many of which have yet to be resolved (as in Moldavia, the Ukraine, etc.).

Global Economic Environment **Competitiveness and the Business Environment**

The upheaval in the economies of the former eastern bloc led to the emergence of new markets, with large and small western businesses breaking into what had been the closed world of these former communist states. At the same time, competition and the transition to the free economy entailed large-scale privatizations, which, in the case of Russia, led to the financial crash of 1998 and the devaluation of the national currency, with major state enterprises suddenly being taken over by private individuals, who embarked on the pursuit of extravagant wealth (Hoffman, D., 2001).

Entrepreneurship grew at a dramatic rate, with the battle for market shares becoming ever more fierce. Businesses achieved economies of scale, found more effective means of production (whether in terms of capital or of cheap, good-quality labour) and internationalized their activities.

It might be said that competition brought about the internationalization of businesses, through a continual movement of competitors and suppliers into what were now international markets (Hatzidimitriou, 2003).

It is generally agreed that business activity has a major role to play in the development and competitiveness of contemporary national economies, as the generation of profit/wealth brings together the various forces of production to create goods and services for consumption by the workforce (Lazaridis, Papadopoulos, 2005).

Through exports and the internationalization of their production processes (raw materials, capital, labour, etc.), as well as new technologies (ICTs), businesses are able to thrive in the global economic environment. It is thus possible to characterize enterprises as national or multinational, depending on the procedures followed in their subsidiaries, and the proportion of their domestic to their international activities (Ball *et al.*, 2006).

Given the above, competitiveness and national growth are affected by international trade and foreign investments. The first relates to the purchase and sale of products between countries, i.e. the importing and exporting of goods in various sectors, such as agricultural products, intermediate products and raw materials, and the provision of services (public and private) such as banking, legal, insurance, stock-broking, education, etc.

Foreign investments are vital for the development and competitiveness of a country, since they determine its ability to offer all the necessary conditions for foreign investors to create profits for their shareholders, and for the state to benefit from investments in terms of labour (direct impact on levels of unemployment) and the consumption of raw materials.

The downside of foreign investments is that they can damage local businesses and threaten them with extinction, or create local unemployment, if not implemented in accordance with rules and within international legal frameworks (Hatzidimitriou, 2003)¹⁰.

We have therefore seen a massive growth in international characteristics of markets, with a corresponding decline in local characteristics. It might be said that the national economy of a country is made up of the totality of all its markets and can be described as international or otherwise depending on the activities of its businesses. We may conclude from the above that competitiveness can be influenced by many factors; it is not confined to one level, e.g. the national or the industrial or the entrepreneurial – instead, all these are contained within it. Competitiveness, therefore, is a concept which affects either positively or negatively all aspects of a country's economy.

The economic factors cited above, as well as the individual elements that comprise them, will be analyzed in detail for the Russian Federation, with the assistance of the Global Competitiveness Index, and the Ease of Doing Business Index, with twelve and nine pillars respectively.

¹⁰ <http://neftegaz.ru/en/analysis/view/7498>, 23-6-2011

Global Competitiveness Index

As we have said, this index assesses the competitiveness of an economy through measurement of individual factors affecting growth. The index as presented in 2004 contained only three pillars: Public Institutions Index, Macroeconomic Environment Index and Technology Index. Each pillar consists of sub-pillars, increasing from three to nine in 2006/7 and then to twelve in 2007/8 (H. Papapanagos, 2010).

Each year surveys are conducted and questions asked to break down into thematic units the results of the measurement and to define the development stage a country has reached, given that the grade for each pillar is arrived at through different factors. Each country is graded by pillar and sub-pillar with values from 1 (worst performance) to 7 (best performance), and the general score is used to calculate the final value of the GCI, which describes the degree of stability and development of each country's economy (World Economic Forum, 2011).

According to Porter & Schwab (2008), from the pillars Basic Requirements, Efficiency enhancers and Innovation & Sophistication factors, consisting of the sub-pillars Institutions, Infrastructure, Macroeconomic environment and Health & primary education for the pillar Basic Requirements, Higher education & training, Goods market efficiency, Labor market efficiency, Financial market development and Technological readiness and Market size for the second index and Business sophistication and Innovation for the third index, it is possible to extract conclusions relating to the growth and competitiveness of a country. More specifically:

Basic Requirements Index

1st pillar: Institutions

It is generally accepted that the economic growth of a country is triggered within the public statutory and institutional framework, which provides a context for doing business for all the elements in a country's economy which contribute to its growth. Business decisions, investments, property ownership and the commencement of any kind of business activity must take place within a context of security, which must be provided by the public institutions, at the same time as and in combination with confidence in national authorities and their provision of all the facilities which allow the market to follow a consistent trajectory of growth. The institutional environment also affects investment decisions and the organization of production processes and shapes the incentives motivating economic players (Rodrik, D., Subramanian, A., Trebbi, A., 2002).

The specific sub-pillar also examines and assesses individual parameters such as property rights, diversion of public funds, public trust in politicians, favoritism in decisions of government officials, reliability of police services, transparency of government policymaking, and also includes data from

the private sector at enterprise level such as ethical behaviour of firms, efficacy of corporate boards and protection of minority shareholders' interests.

Smooth operation of businesses within a framework of international rules helps a country on the road to growth and steady economic improvement, while its absence can cause problems like a climate which deters investment and a lack of consumer confidence.

2nd pillar: Infrastructure

The economic growth of a country, and therefore its competitiveness, are based on the existence of good infrastructure in all sectors. There must be rapid and unimpeded connections among markets, with links between local and international markets via all transport networks. It is clear that top-quality infrastructure is a significant support to local communities, offering direct results in the battle against inequality and poverty. The quality of roads, ports, airports and railways plays an important role in the commercial and economic efficiency of a country.

Infrastructure is also needed to support energy generation and new technologies, like ICTs. These help in the rapid dissemination and processing of information, as well as its more effective use.

The continual growth of an economy will obviously be affected by its capacity to assimilate and adapt these technologies, since businesses need to have access to hi-tech products which must be directly available.

We have observed the phenomenon of inequalities between technologically advanced and less advanced countries, in terms of prosperity, with researchers tending to conclude that technological advances influence investments, productivity and growth (Borensztein, E., De Gregorio, J., *et al.*, 1998).

3rd pillar: Macroeconomic environment

Statistics such as inflation, interest rates, government debt and state revenues make up the macro-economy of a country, whose economic growth must be characterized by macroeconomic stability. All the decisions involving these dimensions of economic life must be right for business, otherwise they may damage the workings of the markets.

It is evident that business decisions are affected by rampant inflation or a massive government deficit, leading to possibly intolerable interest repayments on public debt. The two basic elements of the macro-economy, public finance and monetary policies, must be applied in a stable environment (Wessels, J., Walter, 2004).

4th pillar: Health and basic education

A country's capacity to generate wealth depends to a great extent on the quality of its workforce. The abilities and skills of a country's population are important, because they may determine whether or not it can secure a respected position on international markets.

Therefore the workforce of a country is its 'human capital' in its struggle with its rivals in the global economy. Failure to tackle diseases among the workforce can strike a lethal blow against production, because workforce productivity will be continually declining. At the same time, labour costs will rise, increasing the long-term impact on the finances of a business. We regularly see infectious diseases taking their toll on large numbers of the population – diseases like AIDS, malaria, tuberculosis, etc. The state must pay serious attention to provision of accurate information to its citizens, and take the necessary preventive measures; failure to do so can allow situations to spin out of control, creating an impossible burden for the health and welfare services of a state, and damaging the social fabric. Low life expectancy means shorter working lives, with businesses bearing the burden of absences through illness and the loss of part or all of their investments in staff training. The infant mortality level also plays a significant role.

Workforce education can be divided into basic and more advanced. Education has a direct impact on competitiveness, and by extension on workforce productivity, because lack of basic skills is a major hindrance to the population's capacity to engage actively in the development process. Lack of basic education condemns the workforce to manual labour, to low pay, to a limited labour market. Poorly educated workers cannot cope with advanced methods of production and techniques, and therefore find their professional development impeded.

This pillar takes into account the cost of spending on education, the number of registered students, and the quality of basic education, which, according to Easterly (2002), is a much more significant factor, in respect of the educational process.

Efficiency enhancers

5th pillar: Higher education and training

In the ever more fiercely competitive environment which businesses have to face, this specific sub-pillar links the factor of labour with the production of complex, sophisticated goods, through specialist processes. The priority given by businesses to making complex products is often upgraded and the workforce needs to be appropriately trained, providing an impulse to the business to support and adopt the new technological changes. Countries which have managed to develop a system of higher education able to adjust to new production processes, providing solutions to scientific problems, are more competitive, according to studies by the World Economic Forum which take account of the Global Competitiveness Index. Countries which wish to compete with innovative high-value products in international markets must make sure they have a workforce that is highly

trained and skilled, continually receiving training in new processes and able to handle the new technologies effectively (Dearden, Reed and Van Reenen, 2005).

6th pillar: Goods market efficiency

Supply and demand of products relies on the efficient functioning of the markets, with competition bringing changes in the sense that the more inefficient companies tend to be replaced by others with high production standards. This demonstrates market flexibility and the capacity of businesses to adjust to new conditions – both economic and institutional. Market efficiency will vary according to the level of state intervention, in the form of extensive taxation, the impact of legislation on direct foreign investment, the various barriers placed in the way of business growth, and so on.

Other factors in market efficiency are the time and red tape involved in starting up a business, tariffs, protection policies, the scale of market dominance, the cost of agricultural policy and the consumer behaviour of purchasers.

7th pillar: Labor market efficiency

As we have already said, a significant factor in market efficiency is flexibility, which relates to the unimpeded functioning of the market in such areas as workforce mobility, pay, redundancy costs, the brain drain, professional management.

According to Andersen & Mailand (2005), flexibility is a complex concept, with four dimensions: wage flexibility, functional flexibility, internal numerical flexibility and external numerical flexibility.

Wage flexibility combines workforce productivity with the help of incentives to employees, as well as determining of wages through pay flexibility rather than collective agreements, attracting ambitious candidates to businesses.

Functional and internal numerical flexibility allow businesses to match the working time of employees to market demand and the business's existing obligations. The working hours can be adjusted to current conditions, facilitating a company's production processes.

External numerical flexibility is an important tool in the hands of businesses, allowing them to adjust to medium-term or seasonal changes in market demand. Recruitment and dismissals, compensation, demand for the necessary manpower at any particular time (access to human resources) – all these are aspects of flexibility which allow workers to be taken on when needed on contracts geared to a particular project or for a limited period.

8th pillar: Financial market development

The proper working of the money markets plays a significant role in countries' economies, assisting in the effective distribution of financial resources across society, or through deposits by citizens located abroad. The danger of possible business risks can also be affected.

To help stimulate productivity these resources must feed those activities which are most likely to bring about economic growth, such as industry, services, innovative business initiatives that are high-risk but which may yield large returns and high rates of growth (Levine, 2004). This sub-pillar relates to banking services (lending, reliability of institutions), availability of innovation capital, e.g. new technologies, alternative energy sources, as well as investor protection.

9th pillar: Technological Readiness

Progress in the area of technology is directly related to the economy and to the ability of a country to achieve continual improvement in productivity. This sub-pillar defines the degree of access to, and ability to adopt, new technologies of the businesses of a country, without this necessarily meaning that it is the country itself which produces the new technologies. Progress in transport, development of new telecommunications systems – these are factors which have helped businesses break into new markets. At the same time, they are able to distribute their products abroad, while manufacturing them on more advantageous terms abroad. High-quality international networks offer immediate and easy access to raw materials. Dissemination of information via the internet offers direct, real-time contact among executives anywhere in the world.

A significant factor in facilitating the spread of new technologies is direct foreign investment. This sub-pillar also examines the level of use of computers, the number of users and the extent of mobile phone use.

10th pillar: Market size

Improved productivity and policies to create scale economies are related to the size of a country's market. Outward-looking attitudes on the part of businesses and flexibility in production bring immediate financial benefits to companies, facilitating the entry of small economies into major markets. Through rapid technological advances, international trade offers direct and tangible results, providing the opportunity of a global product 'shelf', establishing outsourcing of companies and the creation of a brand name. This supports international transactions and counters national protectionism, because of increased competition, supply and demand on the global level.

Innovation and sophistication factors

11th pillar: Business sophistication

In the age of globalization it is generally accepted that markets are growing dynamically and in their turn affect the strategies developed by businesses to expand and secure ongoing viability. Constant changes take place within a context in which different factors co-exist, such as internet technologies, the new emerging markets of Asia and the broader region, political instability, international conflicts and, recently, the emergence of global terrorism. It is not at all certain that a strategic position which offered maximum returns in the past will continue to attain its objectives in future.

The extent to which each business manages to adapt to these international developments (business sophistication) will also determine its ability to function within the global, dynamic business environment.

Production of goods and provision of services have much to offer to national competitiveness and an important role here is played by the effective management of businesses. Other factors which serve as additional tools for businesses and assist in international competition are the existence of assets and of direct access to information on potential clients and competitors, so that strategies can be adjusted to reflect the risks, the strengths and weaknesses, the threats and opportunities that arise (N. Theriou, 2005).

This sub-pillar also examines the networks of distribution and the links between businesses and suppliers, their control of distribution of their products internationally, etc.

12th pillar: Innovation

This specific sub-pillar functions in aggregate with the other eleven, creating more and greater returns insofar as innovative activity by businesses, or their functioning within an innovative environment, gives them a competitive advantage over other companies and makes a decisive contribution to national economic growth. Countries in the developing stage can take advantage of existing technologies to expand and improve their productivity even further. Countries which have passed this stage, to maintain their lead, must be continually planning and implementing innovative ideas, operating within a framework which will support both private and public sectors.

In other words, there needs to be a network of support structures and collaborations (industry and universities cooperating in developing research) for further expansion of knowledge horizons (Grossman & Helpman, 1991).

It is clear that the above factors will affect the direct and indirect business environment of a company, and by extension all those involved in it in any way (business stakeholders – see the model below) (Midttun, 2007).

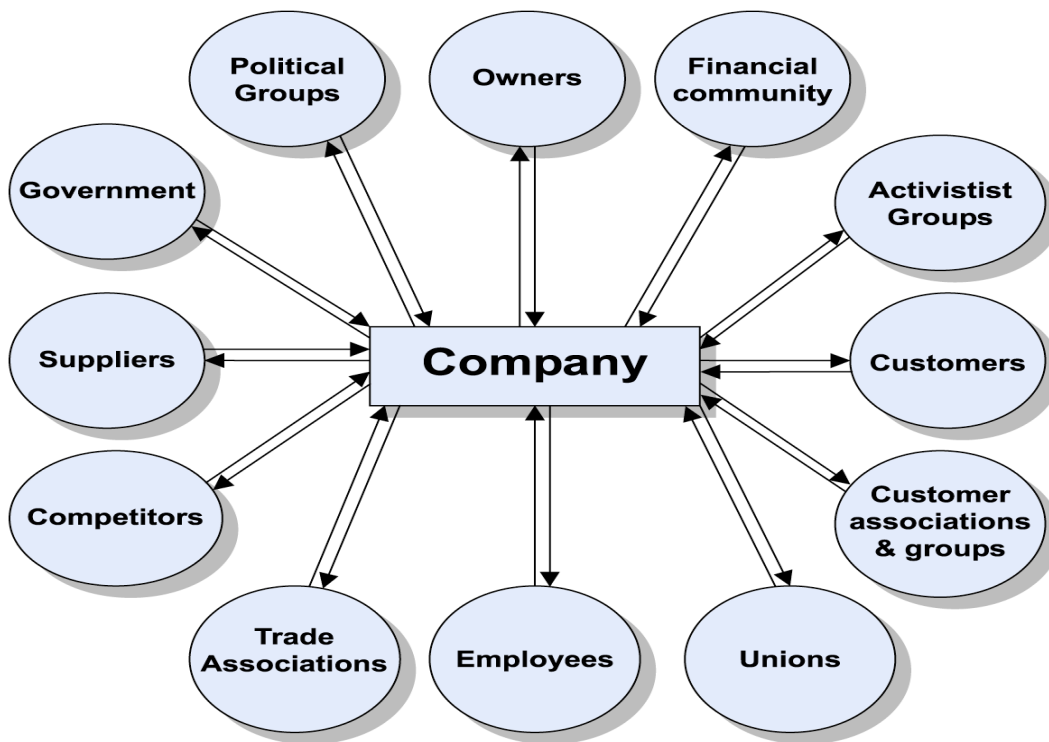


Table 1. Freeman's generic stakeholder map

Institutional Factors and Competitiveness

Apart from the purely economic factors such as macroeconomic figures, the competitiveness of a country and the businesses which develop there and support the overall socioeconomic context, a key role is also played by a series of institutional factors, such as the regulatory environment in which economic activities evolve.

The **institutional environment** is the factor which shapes the broader framework necessary for the development of businesses to generate wealth and allow growth in incomes. It is the framework in which social benefits are allocated, and the burdens of business development endeavours are shared. It is also within this framework that the incentives for competitiveness are defined and refined, attitudes are developed, new patterns of behaviour are created and old strategies abandoned. According to the Global Economic Forum, countries with an effective institutional environment are also ranked high for competitiveness (A. Rodrik, A. Subramanian *et al.*, 2002).

A basic component of the institutional environment is the **regulatory framework** within which all a country's economic and business activities take place. The framework embraces a range of

procedures, from the starting up of a business, access to sources of funding, protection of shareholders to tax and the winding-up of a business. The purpose is to study, where they exist, bureaucratic and complex procedures which often inhibit the proper conduct of business activity (H. De Soto & J. Abbot, 1990). At the same time, however, there must be an effective system of control mechanisms and statutory rules on which the proper and unimpeded function of the markets can be based.

To date there have been two well-known indices examining and grading the various constituents of competitiveness in the business sector (through pillars and sub-pillars) for each country, in order to draw reliable conclusions for development of investments abroad and identifying problems which might adversely impact on the free development of entrepreneurship.

These indices are the Business Competitiveness Index (BCI) and the **Ease of Doing Business Index (EDB)**, developed by the World Bank. In this paper I shall attempt to explain the specific index in relation to the Russian Federation (H. Papapanagos, 2010).

Every year the World Bank compiles and publishes a report on recent improvements in the statutory and regulatory environments of many different countries. It might be said that this annual report is a guide to avoiding business risk, an attempt to safeguard direct foreign investment by businesses wishing to engage in other countries.

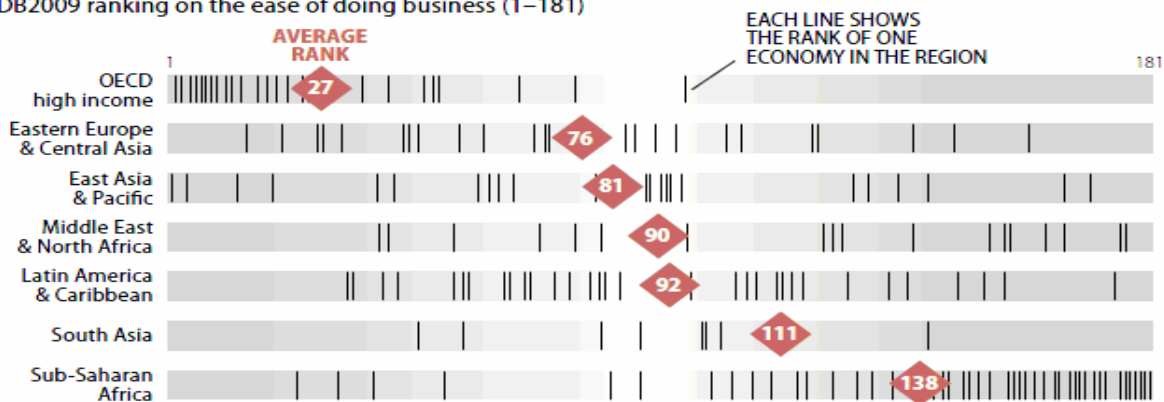
The EDB consists of nine pillars, further broke down into three (Dealing with construction permits) to six (Trading across Borders) sub-pillars, which will be presented in detail (World Bank, Doing Business Database, 2011).

The following graphs show the EDB level of regulatory framework for each geographical region for 2009 and 2010.

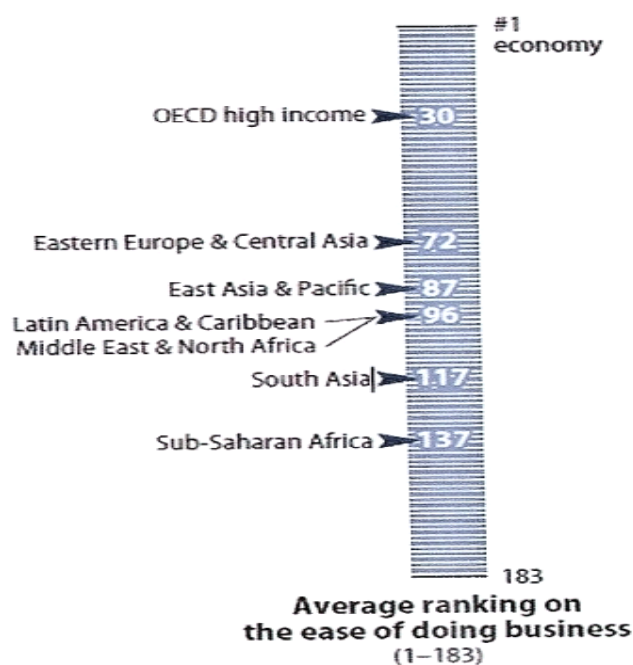
Globally, doing business remains easiest in OECD high-income economies. In Sub-Saharan Africa and South Asia entrepreneurs have it hardest and property protections are weakest across the 9 areas of business regulation included in this year's ranking on the ease of doing business. (World Bank, 2009 and World Bank, Doing Business Database, 2011).

Which regions have some of the most business-friendly regulations?

DB2009 ranking on the ease of doing business (1–181)



Which regions have the most business-friendly environment in *Doing Business*?



Ease of Doing Business

Starting a business

Starting up a business in a foreign country (business entry) involves many parameters, such as the form of the business (Société anonyme, Limited Liability Company, etc.) and the corresponding procedures to be followed in establishing it as a legal entity. Evidently there should not be time-consuming and costly procedures, because these may lead to bribery of the public authorities, to prevent their being rated more likely to fail than succeed, or, even worse, may encourage business to operate outside the law, in the black economy. Moreover, the number of administrative papers and

level of involvement with judicial agencies or lawyers required to complete a business start-up will obviously increase the time and cost involved.

Dealing with construction permits

This pillar relates to the cost, procedures and time involved in setting up a business in new premises. It is necessary to have the legally required state permits, the certificates of inspection of the facilities with any observations or recommendations attached, as well as connections with utilities like power, water, telephone, etc.

All the above require efficient organization on the part of the public administration. If documents are forwarded electronically valuable time is saved and less time is spent on face-to-face contact between the businessman and government or municipal departments. This also reduces the likelihood of corruption, since there will be a broad database serving the needs of the public services (H. Papapanagos, 2010).

In recent years we have seen the spread of one-stop-shops, where the businessman can submit all necessary documents in just one visit to one office. All public departments and services can then access these documents, so the entrepreneur only needs one point of contact with the system. Obviously this does not solve all the problems of red tape and delay, but it does give an impulse towards the implementation of a reforming policy.

The new technologies can also do a good deal to facilitate business activity procedures, by computerizing public services for example, including the register of businesses. The country where a business wishes to start up must also have the appropriate infrastructures (e.g. broadband), security systems and legislative framework for the safe and unimpeded conduct of electronic transactions.

The entry of new businesses into a country affects productivity and increases competitiveness, with positive results for consumers.

Registering property

No businessman is willing to invest capital or expand his activities if property rights are not fully protected. Owners of land, capital or other kinds of intellectual ownership, and the safeguarding of their rights, are important factors in the smooth functioning of an economy.

A clear property ownership system, without impediments and legal lacunae (e.g. occupation of land), is essential to facilitate purchase and sale procedures in the context of investments.

According to De Soto (2000), it is essential for business assets to be secured if they are to be used to draw capital from the financial system, being offered as collateral. This, of course, has a significant

effect on the rate of growth and expansion of businesses, and can lead to an inward-looking attitude, with businesses seeking to solve their refinancing problems among themselves and within a narrow circle of acquaintances.

In the above procedures a very important role is played by an effective judicial system, which also strengthens the institutional environment. Transparent procedures are required, as well as effective legislative and judicial procedures to help resolve disputes in a reasonable period of time. In other words, they must assist in and facilitate the resolution of differences, not place obstacles in the way, tying up financial resources and leading to illegitimate circles and networks of interests.

Getting credit

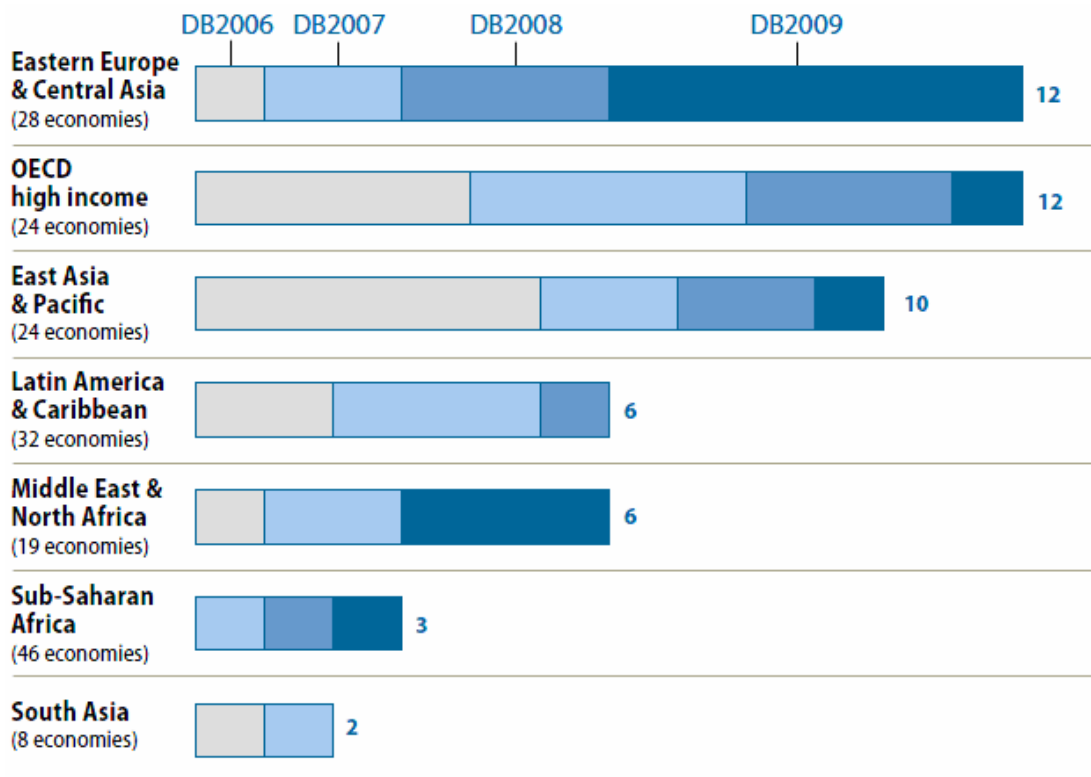
Suitable sources of finance are a key factor in implementing a business plan. The credit system operating under the rule of law – for both borrowers and lenders – is the best support for market liquidity and business funding. This system needs to operate within the context of a legal framework, offering direct access to the relevant financial information, with a fully updated interbank database: the presence of all these factors, running smoothly, eliminates or reduces significantly the likelihood of credit risks. The settlement of debts and monitoring the creditworthiness of businesses, as well as the capacity of the system to provide reliable and high-quality ratings of credit institutions – these too are significant factors, because correct information helps both sides to function efficiently. Finally, in our country, the Tiresias programme allows monitoring of the creditworthiness of businesses and identification of illegal money trails. Also, we must bear in mind here that in countries where the banking system operates to very high standards, a business may resort to loans from other sources, such as the stock market, to improve its productivity (World Bank, Doing Business Database, 2011).

Protecting investors

Directly related to the preceding pillar is that concerning investor protection, since the healthy functioning and development of the stock exchange system is affected by the positive or negative decisions taken on the progress of a business. Investors want to have control of their investments in companies, where it is feasible for them to hold a majority stake, and therefore better control of management, so that they can implement suitable business plans which will not lead to adverse results in the future course of the business. An important role is played by transparency in management functions, which involve uniform, intelligible standards of accounting, timely

notification of shareholders concerning major transactions, as well as the right of small shareholders to question decisions they view as injurious to their interests. When suitable regulations are in place, harmful decisions by management may render them liable to pay compensation, or permit wronged shareholders to resort to the courts (World Bank, Doing Business Database, 2011).

The following graph shows the number of reforms concerning the protection of share holders by region for the past five years. (World Bank, Doing Business Database, 2009)



Note: A reform is counted as 1 reform per reforming economy per year.

Paying taxes

All public services have to be paid for out of taxes, which are of major importance: without them the economy would not function effectively and the untroubled social conditions, which underpin the socioeconomic framework of a country, would be absent. But often, at difficult times for businesses, taxes are seen as an additional burden and a brake on the development of entrepreneurship. At all events, businesses see lower taxation as positive for growth, while high taxes must be seen to lead to higher quality state services.

The other negative effects of high taxation are a high level of tax evasion, the flight of businesses abroad and a fall in investment. This is very much the situation here in Greece at present. Businesses comply with the rules and tax system of a country when they feel that the taxes they pay are used effectively and their investments are increasing in value. It is evident that states need to automate

their procedures to reduce as far as possible market distortions and to ensure effective cross-checking of tax information.

Trading across borders

This particular pillar relates to the cost, time and number of documents required for the smooth conducting of transnational trade. It covers the necessary commercial procedures of the various countries for unimpeded movement of products, as well as the middlemen/agents involved in specific transactions. The smooth and properly coordinated functioning of these factors allows for efficient movement of commercial products between two parties, from the initial agreement to the final delivery of the goods. Where there are complex customs procedures and unsatisfactory infrastructures for trade (roads, ports, airports, etc.), this will lead to increased costs and delays for businessmen.

Enforcing contracts

This pillar is directly related to the preceding one, since it deals with the time, cost and procedures pertaining to the degree of ease of good execution of a contract or commercial agreement between two interested parties. Alternatively, it measures the above factors from the moment that one of the two (plaintiff) proceeds to bring an action for compensation for breach of contract, until the final payment or definitive conclusion of the case. This pillar is directly related to the judicial system of the various countries and its effective operation in cases of compensation or irregularities in performance of contracts.

Many countries have special courts to resolve such disputes rapidly (e.g. Dubai), since obviously the time, costs and red tape all need to be kept to a minimum if businesses are to operate in a healthy and stable financial environment (World Bank, Doing Business, 2011).

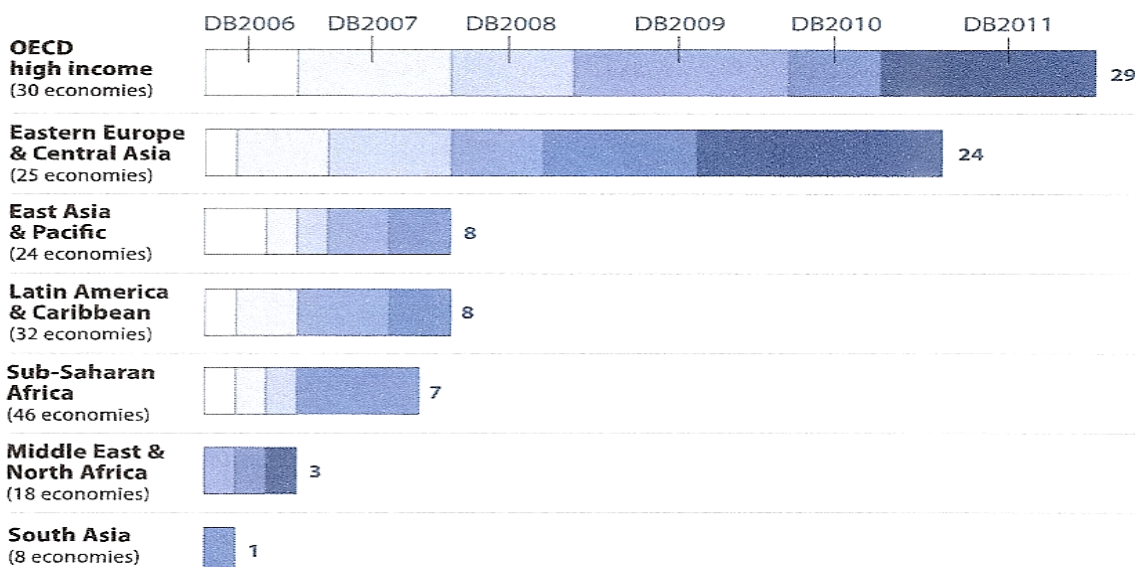
Closing a business

The status of a business within the regulatory framework of a country is extremely important, for its growth and competitiveness, since it supports the viability or otherwise of businesses and leads to the winding up of non-productive or otherwise unsuccessful businesses. In all such cases – bankruptcy, winding up or reorganization and liquidation – the workers, creditors and other stakeholders must receive the maximum return. In cases where the reorganization does not provide the most appropriate solutions for the viability of a businesses, there needs to be a framework of bankruptcy rules or procedures which will take into account the interests of creditors and support liquidity. In general, ease of starting up or winding up businesses is of definite benefit to increasing

competition, since it reduces the negative factors associated with the entry/exit of businesses in various sectors of a country's economy (A. Ciccone & E. Papaioannou, 2007).

Rapid pace of bankruptcy reforms in OECD high-income economies and Eastern Europe and Central Asia

Number of *Doing Business* reforms making it easier to close a business by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: *Doing Business* database.

RUSSIA'S ECONOMY IN BRIEF

Economic development	GDP in Purchasing Power Parity (PPP)	2010	2,218,8 trillion \$ (PPP 6 th)
	GDP per capita in PPP	2010	15.806,9\$ (PPP 51 st)
	Growth rate as % of GDP	2011 est.	4,9% ¹¹
	GDP nominal rate	2010	44.9 trillion Rb.
Maastricht Criteria	Inflation Rate	2010	8.8%
	Base interest rate	2010	7.50%
	Public dept/surplus as % of GDP	2010	9.5%
	Fiscal deficit/surplus as % of GDP	2010	-5.3%
Competitiveness and Economic	Global Competitiveness Index – GCI (1min, 7max)	2010	4.2 (63 of total of 139 countries)

¹¹ The Voice of Russia in: <http://english.ruvr.ru/2011/05/26/50861401.html>, 11-07-2011

Freedom	Index of Economic Freedom	2010	50.3
Entrepreneurship	Ease of Doing Business EDB	2010	123 of total 183 countries
	Corruption Perceptions Index – CPI (1min, 10max)	2010	2,1

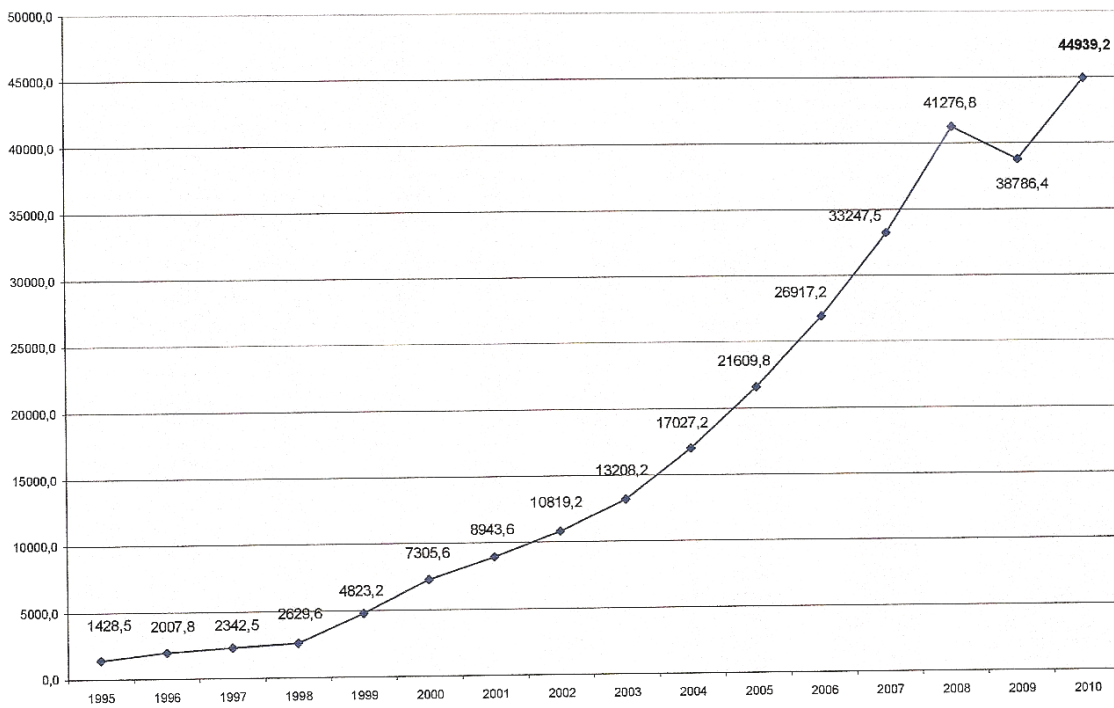
The emerging markets, and by extension the new developing countries of Brazil, Russia, India and China (BRICs) are the most competitive countries on the world stage. Thanks to the political stability of the last few years, and the increased price of oil, the Russian market has recorded impressive rates of growth, averaging around 6-7% from 2000-2008.

The global economic crisis has not passed Russia by, and in 2009 it suffered a drastic fall in GDP (Gross Domestic Product) to -7.8%. However, its subsequent recovery on global markets corrected the fall and it finally achieved an increase of 4%, i.e. a total of 44.9 trillion roubles (Table 1).

GDP (nominal value)	44.9 trillion Rb. (2010)	38.7 trillion Rb. (2009)	41.27 trillion Rb. (2008)
Change in GDP	4.0% (2010)	-7.8% (2009)	5.2% (2008)

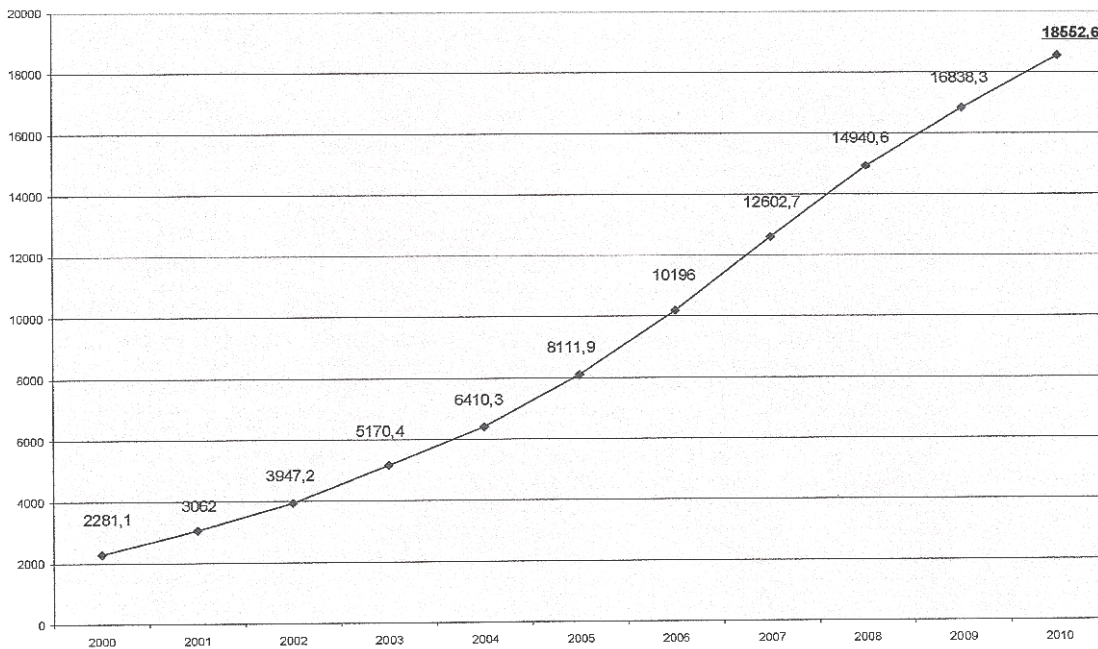
Table 1. Nominal G.D.P. 1995-2010¹²

¹² Source: Statistical Office in Russia (www.gks.ru)



Positive developments in the economy also affected the level of incomes and the labour market. There was an increase in real income of 4.3%, while salaries in real terms increased by 4.2% (Table 2).

Table 2. Increase in incomes in Russia in recent years¹³



Year	Average salary	Annual change
2000	2281.1	

¹³ As above, (www.gks.ru)

2001	3062	34.2%
2002	3947.2	28.9%
2003	5170.4	31.0%
2004	6410.3	24.0%
2005	8111.9	26.5%
2006	10196	25.7%
2007	12602.7	23.6%
2008	14940.6	18.6%
2009	16838.3	12.7%
2010	18552.6	10.2%

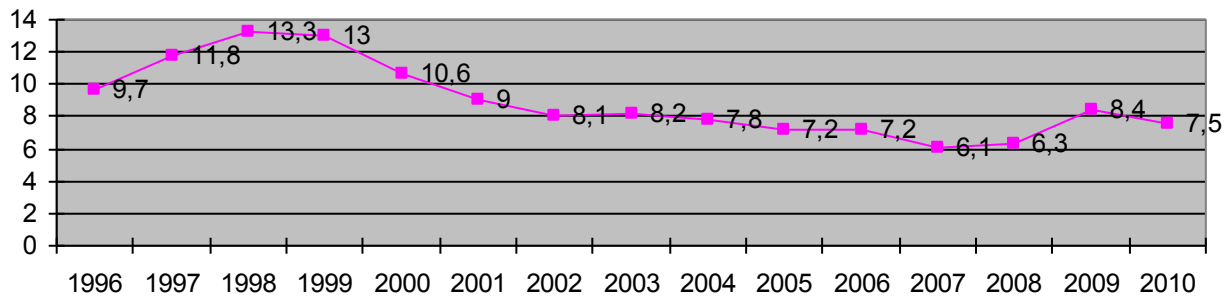
The table above indicates a steady increase in average annual salaries since 2000 (although Russia is characterized by huge differences between high and low incomes). It should be noted that the country is third in the global table of number of millionaires. However, it might be said that, in the light of the above figures, a middle class is beginning to emerge in Russia. This has a direct impact on consumption, and on the demand for high-quality designer goods, as the country follows western patterns of consumption (see Table 3) (Statistical Office in Russia).

Table 3. Structure and Evolution of Consumer Spending

NAME	2006	2007	2008	2009	2010	2011
TOTAL GOODS AND SERVICES	100.0	100.0	100.0	100.0	100.0	100.0
FOODS	42.71	40.21	39.11	37.70	37.97	38.50
OTHER GOODS	33.74	35.13	35.99	37.37	36.25	35.57
SERVICES	23.55	24.66	24.90	24.93	25.78	25.93

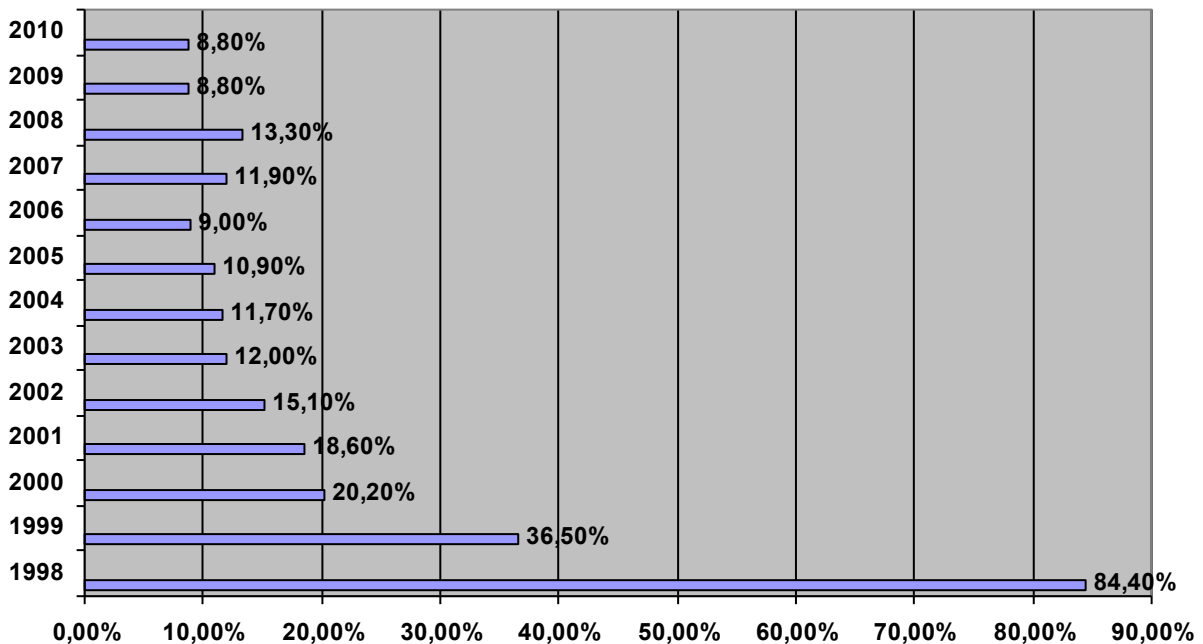
Moreover, unemployment has declined to 7.5% (a total of 5.6m persons) from 8.4% in 2009. In 2010 the economically active population of Russia was about 75.4m, a little more than 50% of the country's overall population.

Table 4. Unemployment in Russia 1996-2010



From the 1990's up until the middle of the last decade (2005) there was a dramatic decline in inflation, which has stabilized in recent years. We should mention here the tragic fires which devastated parts of Russia in the summer of 2010, and had such a huge impact on prices of food and raw materials across the world. The rate of 8.8% for two years in succession is deemed satisfactory (Statistical Office in Russia).

Table 5. Inflation in Russia (1998-2010)¹⁴

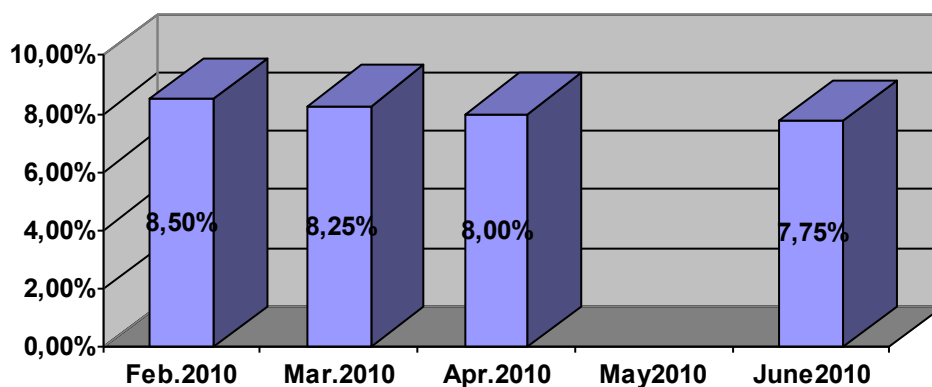


In 2010 the Russian Central Bank interest rate for refinancing was reduced up to four times in succession, by 25 base points each time, from 8.5% to 7.75%.

Table 6. Central Bank Base Interest Rate 2010¹⁵

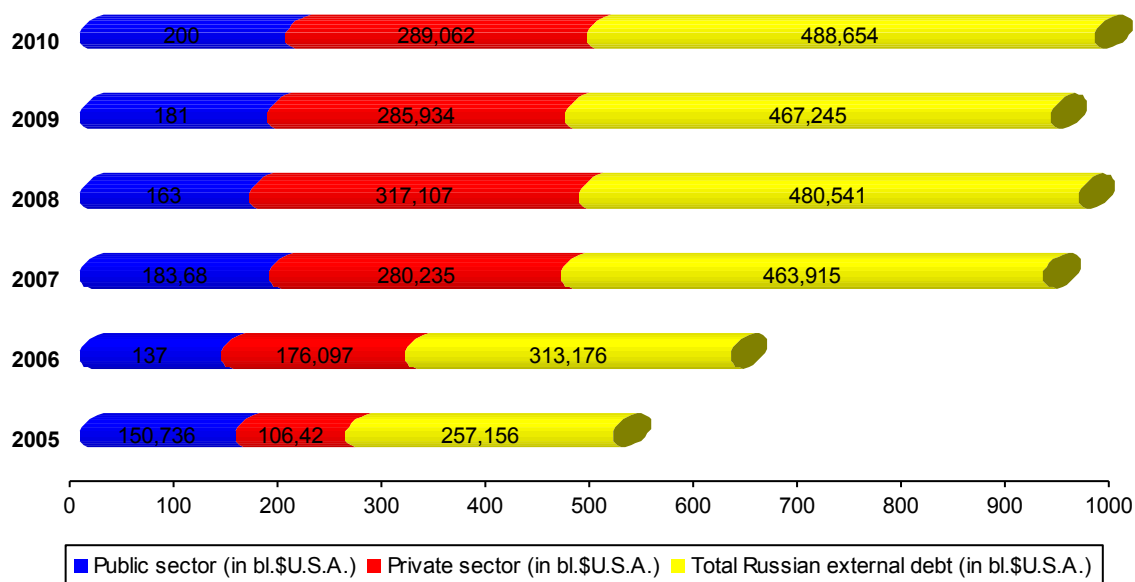
¹⁴ Statistical Office in Russia, at: <http://www.gks.ru>

¹⁵ Figures from the Central Bank of Russia, at: <http://www.cbr.ru>



The foreign debt of the Russian Federation rose in 2010 to \$488.6 billion, an increase of 4.58%.

Table 7. Russian external debt 2005-2010¹⁶



The bank sector (public and private) played a significant role in the increase in the debt, owing to the increase in short-term borrowing. As in all countries, the public sector covers the liabilities of the General Government, the Monetary Authorities and the other financial agencies, which theoretically belong to public enterprises subject to state control. The alarming feature is the existence of a large amount of private debt, which stands at about 20% of GDP and which, as a component of overall debt, may be difficult to service.

¹⁶ As above.

Russian Federation

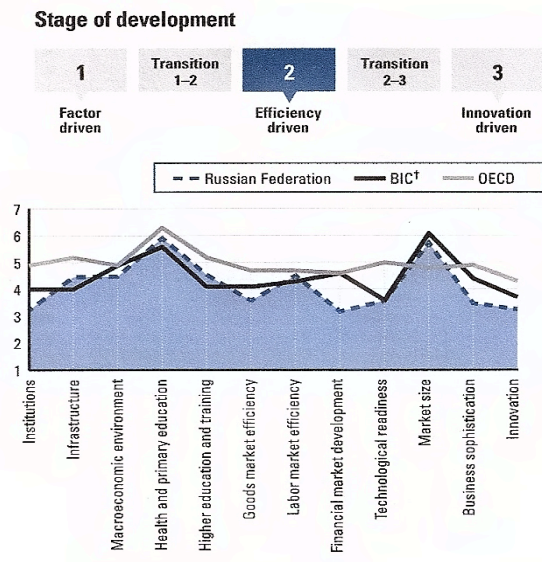
Russia's performance as seen in indicators of competitiveness and ease of doing business in global ratings

As we have pointed out in earlier chapters, inventiveness and innovation, as well as the sophistication of the business environment in which they occur, are key factors in development of the countries within which companies do business. Businesses need to have access to, and be served – in a friendly and direct manner – by the corresponding state services; they must have available capital, good infrastructures and a well-trained and skilled workforce. In recent years Russia has been making great efforts to improve the conditions for internal investment and to foster entrepreneurship, by adopting simpler rules for the workings of the state. The reader will be aware that a country as huge as Russia will have differing levels of competitiveness from one region to another. It is also the case that despite continual efforts its businesses still cannot be said to operate smoothly within the business environment or that there is significant generation of innovative knowledge. Companies are all too often doing business in difficult and unsatisfactory conditions in terms of technology and knowledge. In the pages which follow we shall attempt – with the help of the **Tables** we have compiled – to highlight the positive and negative aspects of the individual sub-pillars and to draw the appropriate conclusions, using the GCI and EDB, as cited earlier, in

comparison with the average of the EU countries (EU27), and the countries of the Black Sea Region (BS10).

A. Global Competitiveness Report General Information Global Competitiveness Index¹⁷

Table 1.



As we see from **Table 1a**, in the GCI (2010-2011) Russia is ranked 63rd with a score of 4.2. This is the same position it held in 2009-2010, but lower than its ranking in 2008-2009, when it was ranked 51st with a score of 4.3. We must, of course, take into account that in the period 2008/09 fewer countries were included in the rankings (134, compared to 139 in 2010/11). (See **Table 2.**)¹⁸

In absolute numbers, Russia has the highest score for its performance in the sub-pillar Basic Requirements (4.5), and then in the sub-pillar Efficiency Enhancers (4.2).

¹⁷ Source: The Global Competitiveness Report 2010-11, World Economic Forum

¹⁸ Source: World Economic Forum, 2010.

The country has its lowest score in the sub-pillar Innovation and Sophistication - 3.4. However, in terms of the rankings, we see that Russia has its highest position in the sub-pillar Efficiency Enhancers (53) and its lowest in the sub-pillar Innovation and Sophistication (80), with its ranking for Basic Requirements in between at 65.

Table 1a.	Rank (out of 139)	Score (1-7)
GCI 2010-2011	63	4.2
Basic requirements	65	4.5
1 st pillar: Institutions	118	3.2
2 nd pillar: Infrastructure	47	4.5
3 rd pillar: Macroeconomic environment	79	4.5
4 th pillar: Health & primary education	53	5.9
Efficiency enhancers	53	4.2
5 th pillar: Higher education and training	50	4.6
6 th pillar: Goods market efficiency	123	3.6
7 th pillar: Labor market efficiency	57	4.5
8 th pillar: Financial market development	125	3.2
9 th pillar: Technological readiness	69	3.6
10 th pillar: Market size	8	5.7
Innovation and sophistication factors	80	3.4
11 th pillar: Business sophistication	101	3.5
12 th pillar: Innovation	57	3.2

Compared with the countries counted among the richest in the Organization for Economic Cooperation and Development (OECD), the so-called BRICs (Brazil, Russia, India and China), and the countries of the G20, Russia appears to have a serious competitiveness problem, as seen in **Table 2**.¹⁹

¹⁹ **Table 2** shows how Russia compares with the average of each group of countries, the overall score and the scores in each of the three sub-pillars. With a score range of 1-7, the negative scores show how many points Russia is behind in each sub-pillar, while the positive scores show

Table 2. Russia's performance in the GCI Sub-Indexes in various International Groups

Group	OECD*	G20	BRICs
No. of countries	35	20	4
Overall 2010/11 Rank/Score	33 rd /-0.7	18 th /-0.6	4 th /-0.3
Basic requirements	32 nd /-0.8	14 th /-0.6	2 nd /-0.1
Efficiency enhancers	32 nd /-0.6	17 th /-0.5	4 th /-0.3
Innovation and Sophistication factors	35 th /-1.2	20 th /-1.0	4 th /-0.6

*The 34 members of the OECD with Russia

It is evident that Russia, in comparison with the OECD²⁰ countries, is in the last place in almost all sub-pillars. Both in terms of the total, where Russia's score (4.2) is far behind that of the leading country, Sweden, (5.6), Germany (5.4) (see **Table 1**) and Canada (5.3), as well as in each sub-pillar, where we see her inability to reach the average of the specific group of countries. The group in question includes the countries of the EU27 (apart from Bulgaria, Cyprus, Latvia, Lithuania and Malta.

how far it is ahead. Source: World Bank Data base, 2010/11.

²⁰ **OECD** Countries: Australia, Austria, Belgium, Canada Chile, Czech Rep. Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, U.K., United States. Source: <http://www.oecd.org>

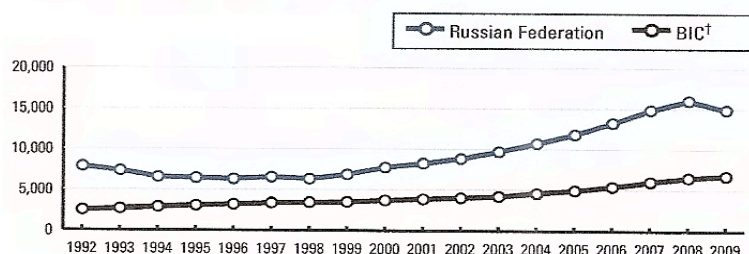
«G-20, a Group of Twenty Countries was established in 1999, to bring together systemically important industrialized and developing economies to discuss key issues in the global economy»²¹.



Russia is a member to this specific group of countries the so-called as G-20. Nevertheless, in comparison with the other countries Russia has also the lowest scores. In the sub-pillar of Basic requirements (4.5) is the next by the scores of the countries of Brazil, South Africa and Turkey to the overall tables. Russia, is even more below than countries with high scores competitiveness, such as France (5.7), Denmark (5.9) and Sweden (6.0). (See **Table 3.1**). The performance of Russia seems to converge more on average sub-pillar Efficiency enhancers and have a wide range of difference in the sub-pillar Innovation & Sophistication factors.(source: World Economic Forum, 2010/2011).

In overall terms Russia is the least competitive country in the BRICs group. It is worth noting, however, that it occupies the second position, with the corresponding score, in the sub-pillar Basic Requirements. In the sub-pillars Efficiency Enhancers and Innovation and Sophistication Factors it occupies the lowest positions; specifically, it is ranked very low in the 11th pillar Business Sophistication and 12th pillar Innovation (3.5 and 3.2 respectively).

GDP (PPP) per capita (int'l \$), 1992–2009



Although the above graph indicates that Russian per capita income is higher than that of the other countries in the group in question, on a second reading it may lead us to conclude that the other countries may be more interested in maintaining their current level of progress and growth in competitiveness, perhaps leading them to greater technological development. (Source: World Economic Forum, 2010/11).

²¹ **G-20** countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, U.K., U.S.A., European Union. Source: http://www.unctad.org/en/docs/webdiaeia20099_en.pdf

Russia's Strengths and Weaknesses

At a first reading of **Table 4**, we see that in the sub-pillar Basic Requirements (Institutions) the country has the lowest position and score (**118/3.22**), below the average of the BS10 (70/3.82) and, of course, very far behind the position/score of the EU 27 average (39/4.65).

In the same sub-pillar (Infrastructure) Russia has the best position/score (**47/4.50**), above the average of the BS10, but again is far behind the average of the EU27 (29/5.03). It also has the best position/score of the BS10 averages **79/4.50** (94/4.27) in Macroeconomics, without approaching the EU27 (49/4.88). Finally, in the fourth component of the same sub-pillar, Health & Primary Education, Russia has a good position/score **53/5.90** and is above the average of the BS10 (67/5.70), although again behind the countries of the EU27 (31/6.25).

In the very next sub-pillar, Efficiency Enhancers, and more specifically in Higher Education & Training, Russia has a very good position/score of **50/4.60** and is ahead of the BS10 average (63/4.22), but is still far behind the average of the EU27 countries (25/5.09). In the next component, Goods Market Efficiency, Russia has an extremely poor position/score of **123/3.60**, behind the average of the BS10 (98/3.85), and, of course, behind the EU27 average, by an enormous distance of eighty-eight points (35/4.63). In the component Labor Market Efficiency Russia is ahead of the BS10 average at **57/4.50**, compared with 71/4.38, while one might say that the country is also differentiated from the average of the EU27 (54/4.55).

In the next component, Financial Market Development, Russia again has a very low position/score (it is the lowest position/score it has generally in the GCI) at **125/3.20**, compared to a BS10 average of 99/3.78 and a EU27 average of 48/4.50. In Technological Readiness Russia is a long way behind the EU27 average (29/4.83) at 69/3.60, while more or less on the same level as the BS10 average. Russia's best performance is in Market Size (**8/5.74**) where it can compete with all the countries of the BS10 together, as well as those of the EU27. In the last sub-pillar of the GCI, titled Innovation, and more specifically the component Business Sophistication, Russia has a very low position/score of **101/3.50**, way behind the EU27 average EU27 (29/4.64), and the average of the BS10 countries (89/3.58). Finally, in the Innovation component Russia has the best position among the BS10 countries and their average (**57/3.25**), but once again is far behind the EU27 average (27/3.96). (Source: World Bank 2010/11)

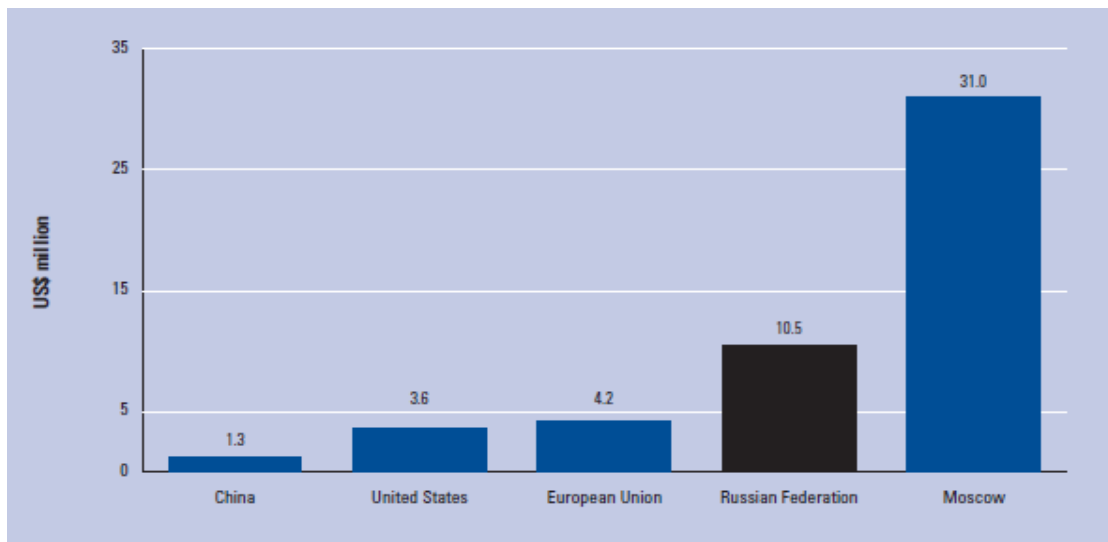
Analyzing the findings

In the broader analysis of the components making up the GCI, and in absolute terms, Russia has the best position/score in Primary Education Enrolment, of the sub-pillar *Health and primary education* (53/5.9). Its percentage of 99.8% is the best after Costa Rica (100.0) and Japan, and equal to that of Spain.

Given Russia's socialist past, one would have expected the country to have inherited considerable state infrastructures.

It would appear, however, that much of the infrastructure is now outdated, although in recent times Russia has been making huge efforts to reconstruct and modernize infrastructure involving all the country's transport networks (*Infrastructure*, 47/4.5). The destruction of infrastructures in terms of number and quality is greater in the road transport networks, which have to face the extreme weather found across much of the enormous country. This, of course, represents an ever-increasing cost in terms of maintenance and reconstruction. It is no accident that Russia scored very low in the areas *quality of overall infrastructure* (94/3.6), *quality of roads* (125/2.4), *quality of port infrastructure* (93/3.7) and *quality of air transport infrastructure* (104/3.8).

The cost of building a road²²



The above figure shows the data which concern the cost of building roads across countries (Russia, China, the United States and the European Union). Furthermore, it is evident that Russia is suffering from the lack of an overall maintenance plan for its road axes, meaning increased costs to users in terms of time, fuel and attrition to their vehicles and tires. This also impacts directly on prices of goods and services, creating congestion on roads that are in good condition and limiting the length of road network available.

²² According to the survey the high cost reflects the level of corruption and the administrative burden in Russia, although prices reflect many other factors (such as land prices, for example). Corruption is seen as the single most important impediment to doing business in the country, with 21.2% of the Survey responses, at: Nuttall, C. 2010. "Road-Building in Russia Six Times More Expensive than in the US or EU." *The Telegraph*, November 1. Available at <http://www.telegraph.co.uk/sponsored/russianow/business/8102639/Road-building-in-Russia-six-times-more-expensive-than-in-the-US-or-EU.html>

Over-use of some main road arteries and overloading of trucks are two of Russia’s serious problems, since overloaded trucks cause damage to road surfaces, and damaged surfaces in turn cause damage to vehicles. Capital investment in the road network needs to increase, although most of it will have to come from the state budget because, as the reader will be aware, there are no tolls anywhere on the Russian road system²³.

While infrastructures are a major issue requiring urgent attention, in the same sub-pillar Russia occupies eighth position in the world for registered mobile phone users (163,6), leaving far behind the average of the OECD countries at 114.9 and the BIC countries (Brazil, India, China) at 63.0. (Source: World Economic Forum).

In the sub-pillar Basic Requirements Russia is far behind the leading country Sweden (4/6.2) and specifically, in the component Institutions, has the lowest position/score (118/3.2).

Some of Russia’s lowest scores are in the areas *Property Rights* (128/2.9), *Diversion of public funds for corruption* (109/2.6), *Judicial Independence* (115/2.7), *Strength of auditing and reporting standards* (116/3.8).

These scores show that the low evaluation of institutions, corruption and business performance are all directly related to transparency and attempts to bribe or the acceptance of bribes, where Russia scores very poorly (111/3.2). The findings of Transparency International in its report on businesses Transparency in Reporting on Anti-corruption²⁴ concerning measures against corruption in 500 major businesses in 17 countries yielded a very disappointing result for Russia, as shown in **Table A.** below. Russian businesses are the worst, with an average score of two (2) on a scale of 1-50 for good practices.

Table A. Average scores for companies by country

Stars	Country/ Territory	Number in sample	Average Score
★ ★ ★	Canada	21	27
★ ★ ★	United States	119	25
★ ★ ★	Switzerland	10	25
★ ★ ★	Netherlands	20	24
★ ★ ★	U.K.	30	22
★ ★	Spain	11	19
★ ★	Italy	20	18
★ ★	Average*	486	17
★ ★	Germany	40	16
★ ★	Sweden	10	15
★ ★	France	29	14
★ ★	South Korea	10	11
★ ★	Hong Kong(PRC)	10	11
★	Japan	32	10
★	Belgium	10	9
★	China	30	6
★	Taiwan	10	3
★	Russia	10	2

*Average results for 486 companies

Note: Figure only shows countries with more than 10 companies evaluated by the TRAC

²³ STATISTICAL OFFICE IN RUSSIA, Rosstat (Agency of national statistics) Russia has only one toll section in its entire federal road network—a 20-kilometer detour in the Lipetsk region, Source: Rosstat at: <http://www.gks.ru>

²⁴TRAC. Berlin: Transparency International, 2009,13, at: http://www.transparency.org/policy_research/surveys_indices/trac

Another negative component in the same sub-pillar, Basic Requirements, is the operation of the banks in respect of the interest spread between borrowing and lending.

A wide spread indicates ineffective relations between banks and the market, and failure to support economic growth, since borrowing is highly expensive and therefore investment is reduced and there are barriers to growth. The table below gives a picture of the interest rate spread in Russia in the years up to 2009²⁵.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Interest on deposits, % Annually	13,7	6,5	4,9	5,0	4,5	3,8	4,0	4,1	5,1	5,7	5,1
Interest on loans, % Annually	39,7	24,4	17,9	15,7	13,0	11,4	10,7	10,5	10,0	12,2	12,2

Large differences in interest rates may originate in incorrect information and transaction costs. The size of banks is also a significant factor, since their spreads may follow economies of scale. On the other hand, the existence of large banks and the monopolistic treatment of capital (possession of large market share) may lead to broad spreads. This can be countered by the existence of foreign credit institutions and the operation of the banking system within a context of healthy competition. (P. M. Martinez, A. Mody, 2004).

In the sub-pillar **Efficiency Enhancers** the great advantage of Russia is the combination of the proximity of its businesses to the nearby Asian and European markets, and the scale of its own market, owing to the sheer size of the country. These factors give it eighth place in the rankings, with a score of 5.7. However, this very positive element is literally cancelled out by its very poor position/score of 123/3.6 in the area of *Goods Market Efficiency*.

In respect specifically of amount of competition, cultural adjustment by consumers to international standards (buyer sophistication) and light-touch government regulation of the markets for goods, Russia is far away from the international standards.

According to a UN report from the United Nations Conference on Trade and Development (Investment Policy Developments in G-2- Countries, 2009)²⁶, Russia appears, from the table of international and national policies, to have taken only general measures relating to investment, with the general framework of state legislation concerning incentives and general measures on taxation. These were taken mainly to combat the international financial crisis of 2008/2009.

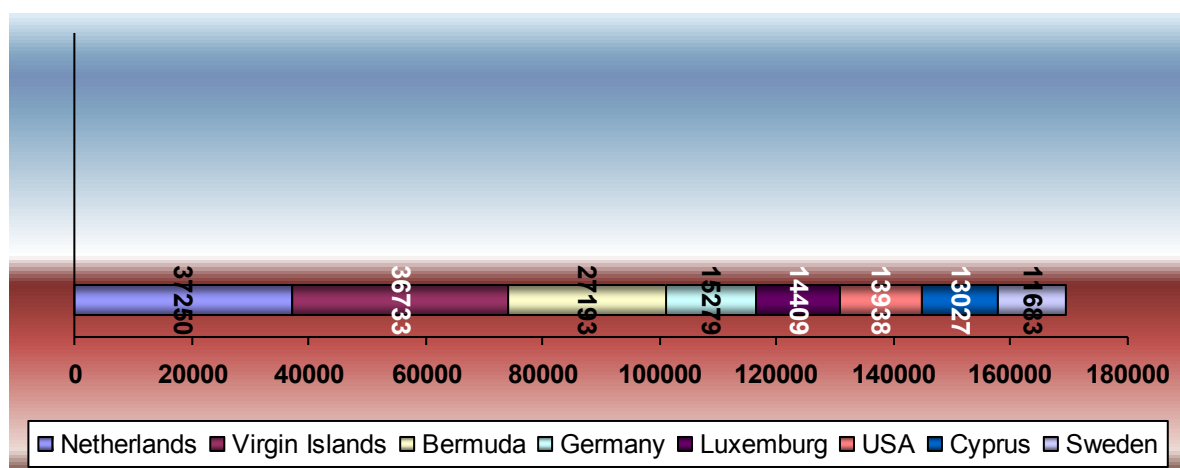
²⁵ Source: Central Bank of Russia, Russian Statistical Service, at : <http://www.cbr.ru>, Rosstat at: <http://www.gks.ru>

²⁶ United Nations, New York and Geneva, 2009, "Investment Policy Developments in G-20 Countries", United Nations Conference on Trade and Development, Geneva, Division on Investment and Enterprise, 2009.

Direct Foreign Investment in Russia is regulated by the Federal Law which has been in effect since 1999²⁷. In 2008 a special law (F3 № 57, 29.04.2008) introduced certain limitations on DFI in «strategic areas» including nuclear energy, arms and airplane production and the media. These laws are found in other countries, but in Russia the notion of «strategic areas» is interpreted comparatively widely. For example, the law does not explain the criteria according to which mineral wealth is regarded as a strategic area.

The following table shows the largest percentages of DFI globally, by country²⁸.

Investment in Russia (value in million\$ USD)



Recently Russia has been trying, through a significant number of legal rules and measures, to modernize in depth the investment capital market, in order to bring about immediate growth in sensitive and problematic areas of the country. This attempt is being made through the so-called Special Economic Zones around the country. The slides presented are illustrative of the major effort being made by the Russian government to attract foreign investment²⁹.

²⁷ The law establishes equal rights for foreign investors and Russian citizens, and guarantees compensation in the event of illegal actions by state bodies, freedom of distribution and repatriation of net business profits, freedom of participation of foreign business capital in the privatization of the Russian economy, the rights of foreign investors to own and use land, real estate and natural resources, etc.. Source: Ministry of Economic Development and Trade-Service for Foreign at: <http://www.economy.gov.ru>

²⁸ The data come from the Central Bank of Russia and reflect the situation at 1.1.2010. The amounts cited include the banking sector. Source: <http://www.cbr.ru>

²⁹ Special economic zones in Russia, Ministry for Economic Development of the Russian Federation at: http://www.napinfo.ru/data/objects/847/re_files/PresentationSEZ.pdf

Investors (total investments – about € 9 billions)

Number of investors in special economic zones



26 companies from 18 countries



Wednesday, January 26, 2011

3

Special economic zones in Russia

- 4 Industrial and production zones
- 13 Tourist and recreational zones
- 4 Technology and innovation zones
- 3 Port zones




Wednesday, January 26, 2011

2

Preferences

- ▶ **Special administrative regime**
 - Decrease in administrative barriers, “single window”
- ▶ **Transparent legislative and management**
 - Authorities involved: Ministry of economic development, JSC “SEZ”
- ▶ **Access to qualified human resources**
 - Science and education centers
- ▶ **Free customs mode**
 - No import duty, refundable VAT
- ▶ **All the necessary infrastructure at lower prices**
 - Office facilities, gas, water, energy etc.
- ▶ **State guarantees and stability**
 - Investment agreement with the Government, zones are created for 20 years
- ▶ **Special tax treatment**
 - Income tax decrease, property, land, transport tax exemption for 5 years



**up to
30%**
cost reduction for
investors

Wednesday, January 26, 2011 4

The above facilities and benefits will be offered to investors to simplify the bureaucratic procedures in place until recently, through a new regulatory framework which will also cover employees’ national insurance contributions.

Nevertheless, despite all this, in the Goods Market Efficiency area of the sub-pillar Efficiency Enhancers Russia continues to use prohibitions and limits on the importing of goods, and a system of protectionism in relation to certain commodities, as follows:

- ▶ It is the Federal Law of 2003 (Government Regulation of International Trade activities) which regulates the exports and imports of the Russian Federation. The law covers quotas, permits and other rules limiting exports and imports.
- ▶ The Russian Ministry of Economic Development and Trade, and its regional administrations, issue import licenses, which are also subject to control by the State Customs Committee. Licenses relating to hunting weapons, ammunition and self-defence equipment are issued only by the Ministry of Internal Affairs.
- ▶ Import licenses are also required for certain other products, such as:
 - rugs, colour TVs, ammunition, ethyl alcohol, pharmaceuticals, military equipment, precious metals, radioactive materials, gems, poisons, vodka, etc.³⁰

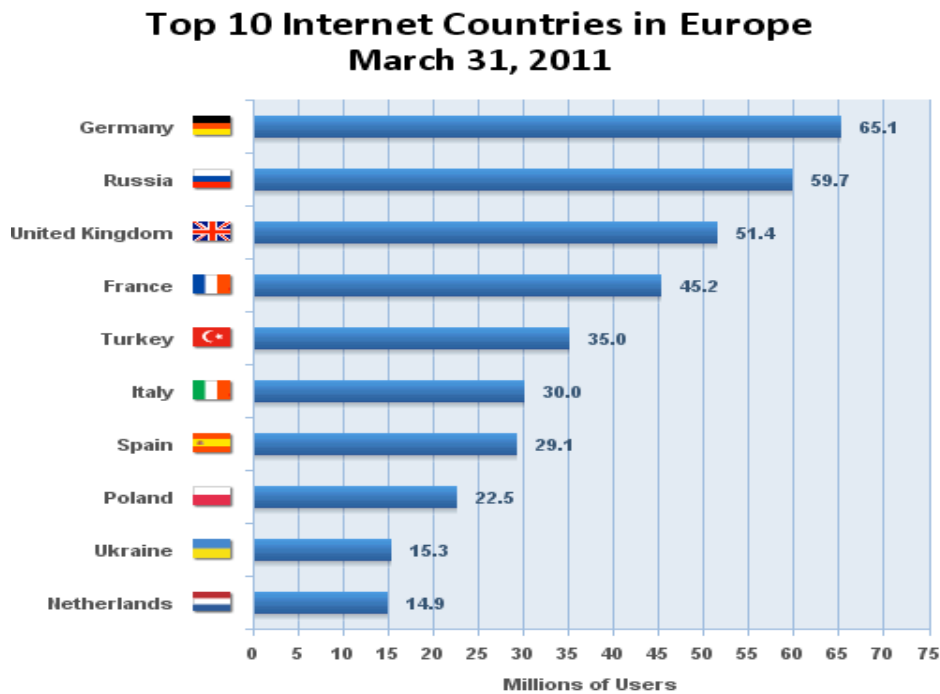
Finally, under Russia’s trade rules there are three different taxes on imported products: import duty, VAT and the special consumption tax (on specific categories of product).

³⁰ Source: Russian Ministry of Development and Trade at: <http://www.economy.gov.ru>

There are also other charges on imports of goods, ranging from 5%-25%, in accordance with the Russian Customs Code.³¹

Russia's worst performance is in the area of Financial Market Development, where the country has a position/score of 125/3.2. This is due to its poor individual results in the components Soundness of Banks (129/3.8), Ease of Access to Loans (107/2.3) and Financing through Local Equity Market (107/2.7). These scores indicate the direct intervention on the part of the state mechanism to accelerate the implementation of changes on its political agenda in respect of the development of the financial sector and the further reinforcement of the banking sector, improving access to finance and the encouragement of more diversity and depth in the market economy.

Finally, a very positive result is achieved in the same sub-pillar, Efficiency Enhancers, and specifically in the component Technological Readiness, reflecting the use of new technologies such as the internet, where Russia comes second among the ten top countries in Europe³². The Broadband Internet Subscriptions component also yields a positive score (50/9.2) (Source: World Economic Forum, 2010/11).



Source: Internet World Stats - www.internetworldstats.com/stats4.htm
 Basis: 476,213,935 estimated Internet Users in Europe on 2010Q1
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The third sub-pillar of the GCI is Innovation, consisting of two separate components: Business Sophistication and Innovation. In this sub-pillar Russia scores 80/3.4, with respective scores in the two separate components of 101/3.5 and 57/3.2.

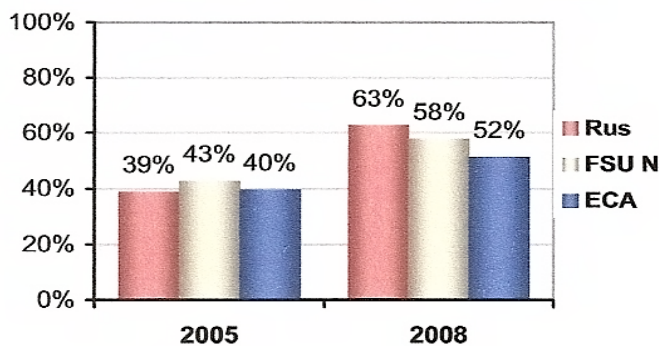
³¹ Russia's Market Access, Source: <http://www.russian-customs.org>

³² Source: <http://www.internetworldstats.com/stats4.htm>

We see from **Table 4** that it lags far behind the average values of the BS10 countries (89/3.58) in the first component, while overtaking them in the second. But in both areas Russia scores poorly when compared with the EU27 countries (29/4.64 and 27/3.96).

Despite its low score of 3.2 Russia is capable of competing with other countries, securing 57th place overall among the rival countries. In the second component, Innovation, the score of 3.5 shows the weakness of Russia’s statutory/institutional environment, the lack of competition and the major statutory/regulatory obstacles to the setting up and functioning of businesses. All the above create a lack of dynamism among businesses, which leads to the low positions/scores in the specific sub-pillar. However, there have been some positive developments in the manufacturing of new products by Russian businesses, with growth in the order of 24% between 2005-2008, as we see in the table below.³³

Table. Percentage of firms that have developed new products in the past three years



Former Soviet Countries (FSU N): Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, Ukraine, Uzbekistan.

European and Central Asia countries (ECA): Albania, Armenia, Bosnia and Herzegovina, Croatia, Georgia, Kyrgystan, Macedonia FYR, Moldova, Montenegro, Serbia, Turkey, Turkmenistan.

As we have already said, major efforts have recently been made by the government to develop business innovation in Russia and to adopt and promote new innovative practices, making best use of the country’s great strength, its highly educated workforce (sub-pillar Higher Education and Training, Tertiary Education Enrollment, gross%, rank/score 12/77.2). Innovation zones have been set up in many areas of the Russian Federation including Saint Petersburg, Tomsk, Moscow (Dubna) and Moscow (Zelenograd), as shown in the map below³⁴.

³³ World Bank, “BEEPS at-a-Glance 2008:Russia” (report, World Bank, Washington, DC, 2010):17, at: http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Russia_2010.pdf

³⁴Special economic zones in Russia, Ministry for Economic Development of the Russian Federation at: http://www.napinfo.ru/data/objects/847/re_files/PresentationSEZ.pdf



Each zone will specialize in different fields of science and innovation, such as:

- ✓ Microelectronics and optoelectronics
- ✓ Nanotechnologies
- ✓ Bioengineering and biosensor technologies
- ✓ Information technologies
- ✓ Instrument engineering
- ✓ Medical technologies
- ✓ Electronics
- ✓ Information and communication technologies
- ✓ Biotechnology
- ✓ Nuclear technologies
- ✓ Communication equipment

An example of the Russian state's intentions in this area is provided, in concise form, by the Ministry of Economic Development of the Russian Federation, in the following table:

Industrial and production zones	Technology and innovation zones
<ul style="list-style-type: none"> • World industry leader • Highly competitive production • Uses domestic raw materials • Export oriented companies • Company taking part in production chains inside of SEZ 	<ul style="list-style-type: none"> • Research divisions of large technological company • Company which elaborates unique innovative technologies • High potential of products commercialization • Company taking part in production chains inside of SEZ
Potential investors in SEZ	
Tourist and recreational zones <ul style="list-style-type: none"> • International hotels and resorts chains • Companies offering competitive and high quality tourist services • Sport and travel companies 	Port zones <ul style="list-style-type: none"> • International management companies operating one or several ports • Logistics companies • Leaders in technical service, ships and crafts maintenance

B. Ease of Doing Business (EDB)

As we have already said, this index is of key importance to the development and operation of the businesses of each country, since it determines, through the values of its component indicators, the development of the future business environment in which companies must operate and grow. If this environment is unfriendly, it will be very difficult for companies to flourish and acquire advantages in areas relating to their business development and adaptability, and the development of their products.

Business leaders can extract very useful information to help them change, transform, re-shape or accelerate their strategies, in order to improve their business practices. Also, the EDB index can be used by the business world to study the strengths and weaknesses of a country in regard to the business environment, so that businesses can expand, invest – or withdraw from – a country having assessed the various components of the business risk it presents.

In respect of this particular index the researcher must pay particular attention to the database covering the geographical regions of a country, because those regions are used which contain the major commercial centres in which the leading companies in an economy do business. In Russia the leading geographical region, where the largest (in percentage terms) economic activities take place, is the area around Moscow. To form a clear idea of the level of their comparative performance, the World Bank and the Russian government conducted a study in 2009 covering nine other regions of the Russian Federation. The study covered the regions of Irkutsk, Kazan, Perm, Petrozavodsk, Rostov-on-Don, Saint Petersburg, Tomsk, Tver, and Voronezh. It came to the fascinating conclusion that of the whole group Moscow occupied the lowest ranking, while Kazan was clearly superior, with many regional differences³⁵.

³⁵ World Bank, Doing Business in Russia 2009 (Washington, DC: World Bank, 2009).

RUSSIAN FEDERATION		Eastern Europe & Central Asia		GNI per capita (US\$)	9,370
Ease of doing business (rank)	123	Upper middle Income		Population (m)	141.9
Starting a business (rank)	108	Getting credit (rank)	89	Trading across borders (rank)	162
Procedures (number)	9	Strength of legal rights index (0-10)	3	Documents to export (number)	8
Time (days)	30	Depth of credit information index (0-6)	5	Time to export (days)	36
Cost (% of income per capita)	3.6	Public registry coverage (% of adults)	0.0	Cost to export (US\$ per container)	1,850
Minimum capital (% of income per capita)	1.9	Private bureau coverage (% of adults)	14.4	Documents to import (number)	13
				Time to import (days)	36
✓ Dealing with construction permits (rank)	182	Protecting investors (rank)	93	Cost to import (US\$ per container)	1,850
Procedures (number)	53	Extent of disclosure index (0-10)	6		
Time (days)	540	Extent of director liability index (0-10)	2	Enforcing contracts (rank)	18
Cost (% of income per capita)	4,141.0	Ease of shareholder suits index (0-10)	7	Procedures (number)	37
		Strength of investor protection index (0-10)	5.0	Time (days)	281
Registering property (rank)	51			Cost (% of claim)	13.4
Procedures (number)	6	Paying taxes (rank)	105		
Time (days)	43	Payments (number per year)	11	✓ Closing a business (rank)	103
Cost (% of property value)	0.1	Time (hours per year)	320	Time (years)	3.8
		Total tax rate (% of profit)	46.5	Cost (% of estate)	9
				Recovery rate (cents on the dollar)	25.3

From the data in the above table, taken from the World Bank EDB Index of 2011, it is clear that starting a business in Russia is not easy (ranking 123, out of a total of 183 countries), but it is even harder to keep it running, because of the existence of many negative operational factors. Russia is ranked 182nd in respect of **dealing with construction** permits, 105th in respect of paying taxes, 93rd in respect of protecting investors and 89th in respect of getting credit. Also, in terms of **trading across borders** it ranks very low (162th) while, finally, the procedures for closing a business are equally problematic, with Russia ranked in 103rd position in this area.

Compared with the BS10 countries, Russia occupies the lowest ranking after Ukraine (145 overall), while when compared with the EU27 countries it occupies the very bottom ranking, below Greece, in 109th position. In the sub-pillar **Starting a business** it is in the 108th position, Greece being the worst (149th) in respect of the BS10 countries, while among the EU27 countries it is above Poland at 113th. In the sub-pillar **Dealing with construction permits** it is in bottom position (182th) among the BS10 countries and among the EU27 countries, with the second lowest ranking being occupied by Poland (164). In the next sub-pillar **Registering property** it is ranked sixth (51th) among the BS10 countries, following the rapidly developing Turkey (38th), while among the EU27 countries it leaves behind it a number of major states such as Germany, France, Spain, Ireland and Cyprus, coming behind the Czech Republic (47th). Likewise, in the sub-pillar **Getting credit** Russia is in last place among the BS10 countries, in 89th position, while also ranked very low among the EU27 countries, after Sweden (72th) and on a level with Greece, Italy and Portugal. In the sub-pillar **Protecting investors** Russia is level with Armenia (93rd) among the BS10 countries. (see Table 6 and 7)

Among the EU27 countries Russia is level with a number of countries (Cyprus, Czech Republic, Germany, Lithuania and Spain) and outperforms Slovakia, Netherlands, Luxembourg, Hungary, Austria and Greece respectively.

In the next sub-pillar **Paying Taxes** Russia is in sixth position among the BS10 countries (105th overall), while among the EU27 countries it is ranked immediately after Austria (104th) leaving behind it such countries as the Czech Republic, Hungary, Italy, Poland, Romania and Slovakia.

In the sub-pillar **Trading across borders** Russia is ranked second from bottom (162) after Azerbaijan (177) among the BS10 countries, and bottom among the EU27 countries, while the worst position of all is occupied by Bulgaria (108th). In the penultimate sub-pillar **Enforcing contracts** Russia is in the top position (18th overall), while likewise compared with the EU27 countries she outperforms countries such as Belgium Denmark, Holland, Portugal, Spain, Sweden and the UK.

Finally, in the sub-pillar **Closing a business** Russia ranks seventh among the BS10 countries (103rd overall) and last among the EU27 countries, with the bottom ranking held by Romania at 102nd.(see Table 6 and 7)

BRIC countries

Countries Group BRIC	Brazil	Russia	India	China
Overall ranking 2011	127	123	134	79
Starting a business	128	108	165	151
Dealing with construction permits	112	182	177	181
Registering property	122	51	94	38
Getting credit	89	89	32	65
Protecting investors	74	93	44	93
Paying taxes	152	105	164	114
Trading across borders	114	162	100	50
Enforcing contracts	98	18	182	15
Closing a business	132	103	134	68

In the above summary table of the BRIC countries we see very quickly that Russia enjoys certain advantages over the other countries. Its 108th ranking overall out of 183 countries in the sub-pillar *Starting a business* is low, but it is the best among the other countries. Its very low ranking in the sub-pillars *Dealing with construction permits* and *Paying taxes* is balanced by the correspondingly low positions of the other countries, the best position being held by Brazil. Russia's major problem continues to be in the sub-pillar *Trading across borders*, where there are major differences with other countries, particularly China (50th).

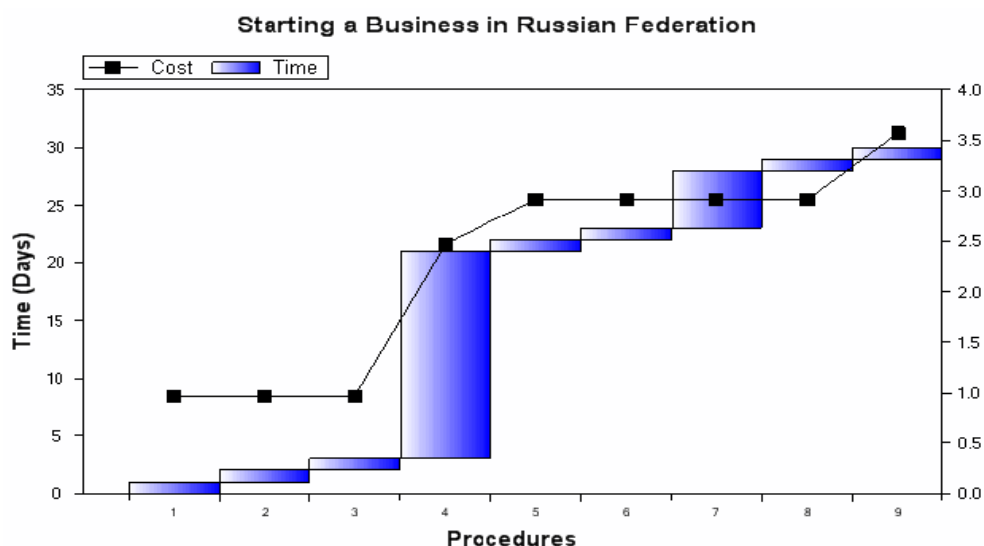
Therefore Russian companies continue to face major difficulties, requiring 13 documents to import goods, compared with 5 and 7 in China and Brazil respectively. The cost of imports by container is 1,850US\$, compared with 545US\$ and 1,025US\$ in China and India respectively. The cost of exports by container is very high, both China (500US\$) and India (1.055US\$) respectively being lower.

Analyzing the findings

In the sub-pillar **Starting a Business** Russia is ranked 108th, compared with the best practices of the EU27, which are the UK (17th) and in terms of the BS10 Georgia (8th). (See **Tables 6, 7** and World Bank Database, 2011)

Good practice Economy	Procedures (number)	Time (days)	Cost (% of income per Capita)	Minimum capital (% of Income per capita)
Georgia (8th)	3	3	5.0	0.0
U.K. (5th)	6	13	0.7	0.0
Selected economy	9	30	3.6	1.9
Russia (108th)				

It is evident from the table above that starting up a business in Russia takes most days and involves most procedures, not to mention the greater cost entailed. The table below shows the time involved in the procedure for registration on the standard roll of companies of the Federal Service, to acquire a tax number and taxpayer ID number (INN), as well as registration with the state pension fund (procedure 4, 18 days and 4,000 RUB), and the acquisition of a company stamp after registration at the local chamber of commerce (procedure 9, 1 day, 1,750 RUB).



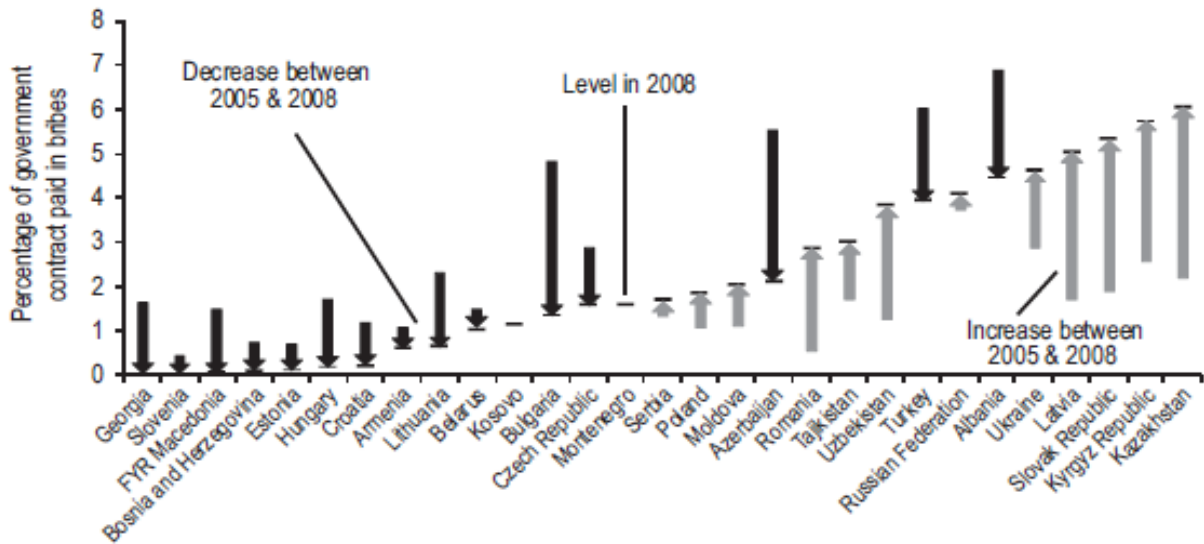
In order to simplify the procedures involved in setting up a company, on 1.7.2002 a one-stop-shop service was set up in Russia, overseen by the State Registration Chamber, which is part of the Ministry of Justice³⁶.

There are major differences with the EU27 countries in the sub-pillar **Trading across borders**, given that the average number of days required to export a goods container is around 14.7, five documents are required, while the cost of importing or exporting goods is about 700US\$-800US\$ higher than the EU27 average. (Source: World Bank, EDB 2011).

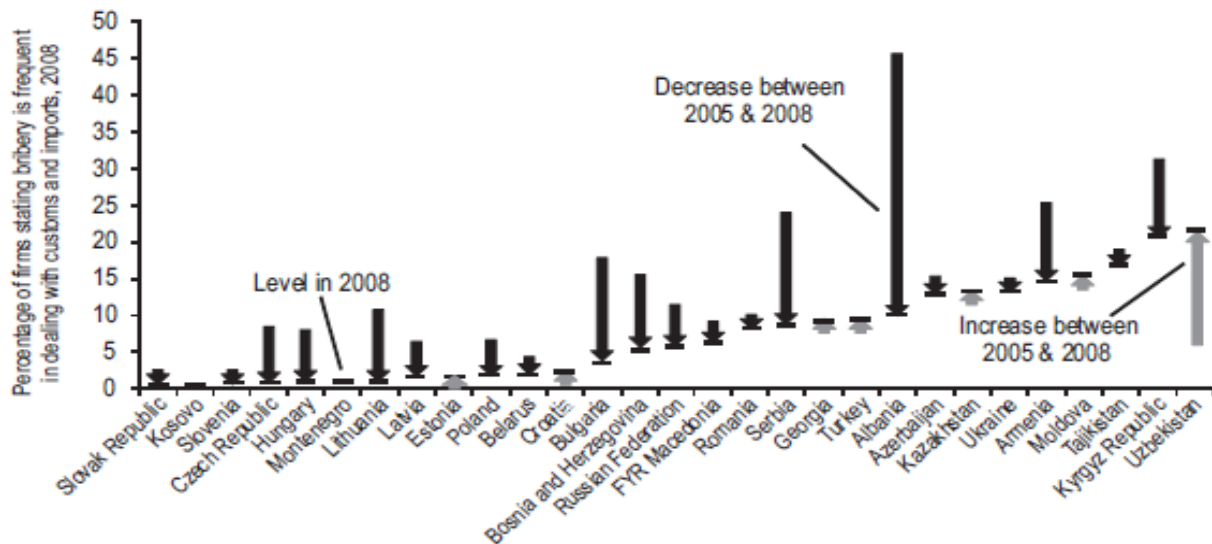
³⁶ State Registration Chamber with the Ministry of Justice of the Russian Federation (Central Register), at: <http://www.palata.ru>

This may be due to corruption, or the need to offer cash sums to have the state services speed up the customs procedures. The graph below illustrates corruption in the area of bribery of public officials, and its decline, according to businesses, in the areas of customs and imports³⁷.

Bribes in Public Procurement by Country, 2005 and 2008



Bribe and frequency in Customs and Imports by country, 2005 and 2008



Moreover, in comparison with the EU27 countries, another element which gives a negative impression of Russia is the average time taken to close down a business (sub-pillar **Closing a business**), which amounts to 3.8 years, almost two years more than the EU level, and the amount of 25 cents to the dollar which creditors can expect to recover, corresponding to an EU average of 65 cents to the dollar.

³⁷According to businesses, the level of bribery involved in dealing with customs and imports declined from 11% to 6%. This is due to the special importance attached by Russia to the issue, through continual revision and restructuring of the Federal Customs Service Code. World Bank, Trends in Corruption and Regulatory Burden in Eastern Europe and Central Asia (Washington, DC: World Bank, 2011:15, at: http://siteresources.worldbank.org/ECAEXT/Resources/2011_report_fullreport.pdf)

Also, in the sub-pillar **Dealing with construction permits**, the procedures involved in Russia (mainly in Moscow) are long and costly, the expense involved being in the order of 4,141.0US\$ compared with around 215US\$ in the European countries, with the time involved likewise being around a whole year longer before the procedures can be completed for the necessary documents to be prepared allowing investors to take delivery of the final permits to construct infrastructure projects³⁸. The table below illustrates the best practices (Denmark) and the negative practices found in Russia and the B(R)IC countries, as well as the graph with all the factors involved (cost, time in combination with necessary procedures) required for a warehouse to be built in Russia³⁹.

Good practice	Procedures(number	Time (days)	Cost(% of income per capita)
Economy			
Denmark	6		
Selected economy Russia	53	540	4141,0
Brazil	18	411	46,6
China	37	336	523,4
India	37	195	2143,7

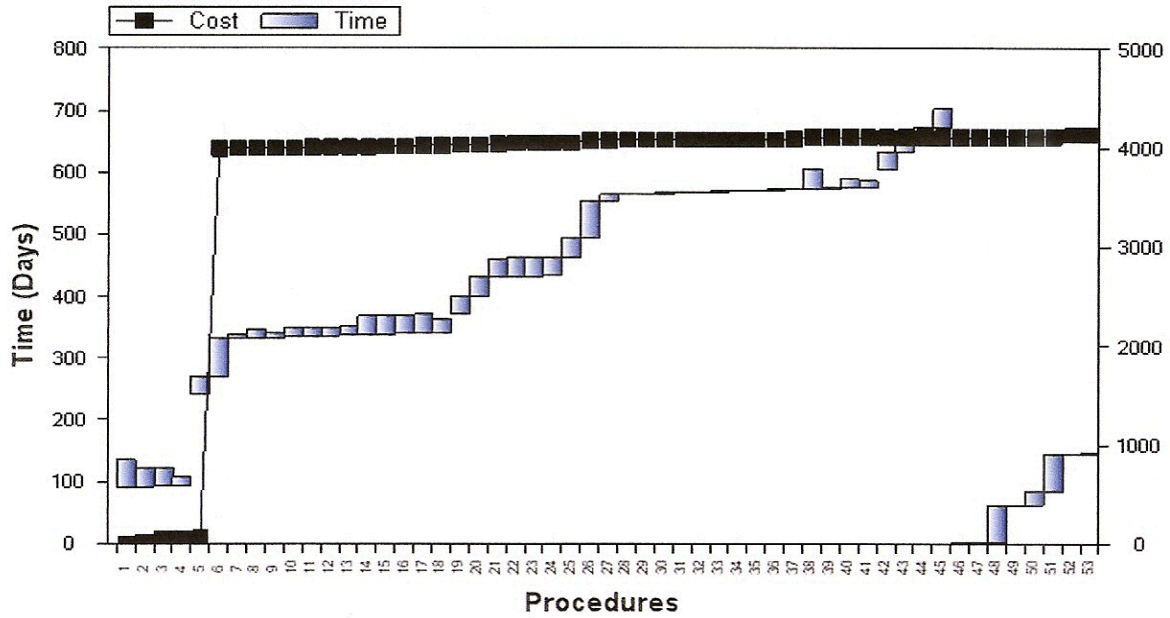
It requires 53 procedures, takes 540 days, and costs 4,141.00 % GNI per capita to build a warehouse in the Russian Federation (Moscow). Some of the more costly and time-consuming procedures are the following:

- ▶ Request and obtain an ecological engineering survey – Mosgorgeorest, 45 days RUB 100.000
- ▶ Request and obtain technical conditions for an electricity connection with MosEnergo, 30 days RUB 10.500.000,00
- ▶ Request and obtain project approval by Moscow State Expertise, 45 days, RUB 59.500,00
- ▶ Receive an inspection from the Mosgorgeotrest to make sure that the building has been built where it was planned to be, 1 day RUB 50.000,00.

³⁸ There are two factors adversely affecting the Russian position. The first is the existence of a large number of procedures to be completed for a permit intended for use in Moscow, where a large number of such permits are required, over and above those required by the federal urban development code. The second factor is the high cost to businesses of connecting to the electricity supply. Source: World Bank, *Doing Business in Russia 2009* (Washington, DC: World Bank, 2009):10.

³⁹ World Bank, EDB, 2011.

Building a Warehouse in Russian Federation



In the sub-pillar **Registering property** Russia is ranked very high (51) and the following table illustrates the good practices (Lithuania, EU27) and those of Russia. Efforts have been made in Russia to take measures to protect industrial and intellectual property. The competent agency is the Office for the Protection of Industrial Property «ROSPATENT⁴⁰», which regulates - through the relevant laws – the areas of patents, standards and models (new products and designs), logos and names denoting origin. Russia is also a member of the international organization for the protection of industrial property and has ratified international conventions covering these areas.⁴¹

Also, the most recent revision of the law on land ownership was carried out in 2005, with various provisions being amended or added to. The most important point, however, is that the law continues to prohibit the ownership of land by foreign nationals, and this prohibition has now been extended to companies if foreigners own more than 50% of their capital⁴².

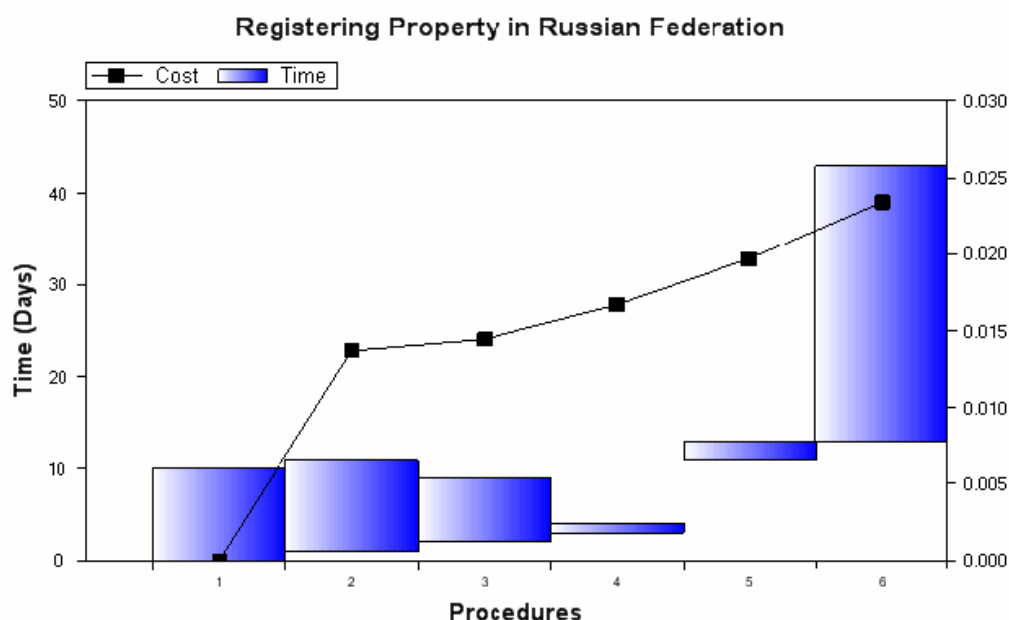
The table below illustrates good practices in relation to which Russia appears to need to make even greater efforts if it is to improve its individual indicators. In relation to the cost involved in registering property/real estate as a percentage of the property value (third column) Russia records the lowest value.

⁴⁰ ROSPATENT, at: <http://www.rupto.ru>

⁴¹ Treaty on the founding of the World Intellectual Property Organization (WIPO), Paris Convention on the Protection of Industrial Property, Madrid Agreement on international registration of trade marks, Berne Convention on the protection of literary/artistic works, International Rome Convention on protection of performers, producers of phonograms and broadcasters. Source: WIPO, at: <http://www.wipo.int>

⁴² Source: <http://www.garweb.ru/project/law/doc/12024624-001.htm>

Good practice Economy	Procedures(number)	Time (days)	Cost (% of property value)
Lithuania (7th)	3	3	1.9
Selected economy	6	43	0.1
Russia (51st)			



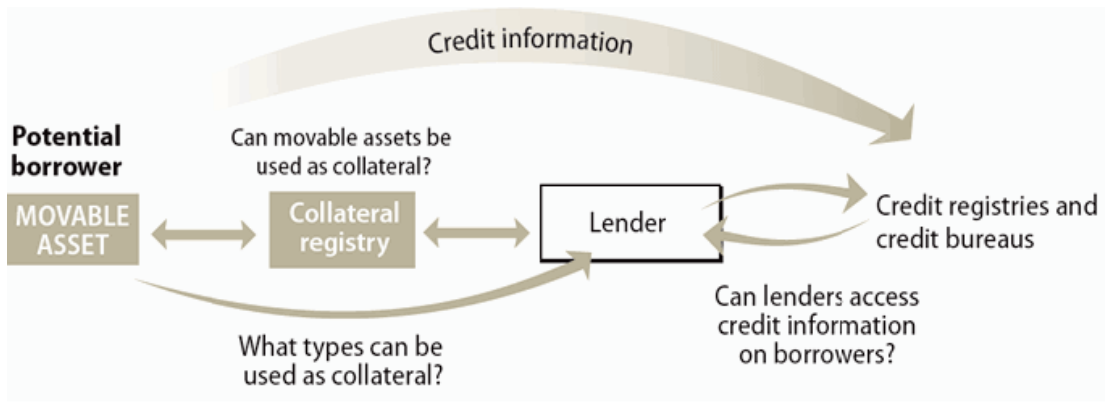
The above graph⁴³ illustrates the cost and time involved, as well as the number of procedures required, for property to be registered in the Russian Federation. It can be seen that procedure six involves a major problem of both time and cost (Registration of the transfer of the building and the land plot at the State Registration Department: 30 days, 15,000.00 RUB).

The table below illustrates good practices of Portugal and Russia in the sub-pillar **Getting credit**.

Good practice Economy	Strength of legal rights index (0-10)	Depth of credit information index (0-6)	Public registry coverage (% of adults)	Private bureau Coverage (% of adults)
Portugal (89th)	3	5	67.1	16.3
Selected economy	3	5	0.0	14.4
Russia (89th)				

In the final column, which processes the data of the number of individuals and firms listed in the largest private credit bureau as percentage of adult population, we see that Russia lags behind Portugal, as in the second column, which shows data from the public registry where businesses and individuals must be listed (number of individuals and firms listed in public credit registry as percentage of adult population).(World Bank EDB, 2011)

⁴³ As above



The above figure illustrates the relations developed within the framework relating to information on credit, borrowers and lenders, as well as the way in which movable assets are used, for example as collateral by businesses wishing to borrow. It appears that creditors can have access to information on borrowers (but only in the private sector), while both sides have the right to resort to extrajudicial agreements, as envisaged in Russian law⁴⁴.

In the sub-pillar **Protecting Investors** Russia is in 93rd place and Ireland occupies the best ranking (7th, in the EU27), while in respect of the BS10 countries the top-ranked is Azerbaijan (20th). Let us take a look at the following comparative table⁴⁵:

Good practice Economy	Extent of disclosure Index (0-10)	Extent of director Liability index (0-10)	Ease of shareholder suits Index (0-10)	Strength of investor Protection index (0-10)
Azerbaijan (20th)	7	5	8	6.7
Ireland (5th)	10	6	9	8.3
Selected economy Russia (93rd)	6	2	7	5.0

It is truly remarkable that a non-European country like Azerbaijan, with numerous problems in its political life and with areas of the country in a state of war, a former Soviet Republic, should have managed in a short period of time to overtake Russia and have taken all the necessary measures to approach the standard of a European country like Ireland, in such sensitive areas as the protection of investors, particularly small investors, and their right to negotiate their shares themselves for their own benefit, from unjust, damaging or high-risk decisions by major shareholders and business managements. Here, too, Russia must pay the necessary attention to strengthening the transparency of transactions, to timely and reliable notification of shareholders, and to upgrading the legislative framework for small shareholders in businesses.

⁴⁴ The World Bank and the International Finance Corporation, Doing Business, "Making a Difference for Entrepreneurs", 2011, at: <http://www.doingbusiness.org>

⁴⁵ Source: World Bank, Doing Business, 2011.

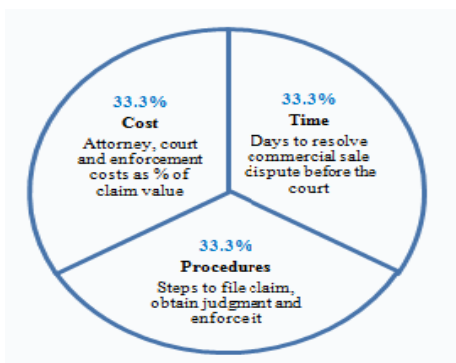
The sub-pillar **Paying Taxes** is essential in supporting the socioeconomic fabric of a country. For businesses, however, taxation is often considered an inhibiting factor, representing an additional burden, an obstacle to productivity and the development of entrepreneurship. Good practices in the sub-pillar Ireland (7th) and likewise, from the BS10 countries, Georgia, are shown as follows:

Good practice Economy	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)*
Georgia (61st)	18	387	15.3
Ireland (7th)	9	76	26.5
Selected economy	11	320	46.5
Russia (105th)			

*

- Total tax rate (% of profit)**
- Profit or corporate income tax
 - Mandatory social contributions and labor taxes paid by the employer
 - Property and property transfer taxes
 - Dividend, capital gains and financial transactions taxes
 - Waste collection, vehicle, road and other taxes

It is significant that Russia is a long way from the good practices of Ireland in respect of the number of payments per year, as well as the time which has to be wasted to meet one’s obligations as a taxpayer. The tax rate is 20% higher in Russia, but the major surprise comes from Georgia, which has a larger number of payments and time involved, but a much lower rate of overall taxation, at just 15.3%. It has thus made itself an attractive destination for investment capital, which provides a direct stimulus to the development of entrepreneurship in the country.



Finally, in the sub-pillar **Enforcing contracts** Russia is ranked very high overall among the 183 countries (18th), outperforming major European countries like Belgium (21st), Portugal (24th) and the UK (23rd). It is worth comparing the best practices of Luxembourg (1st) in this sub-pillar with those of Russia.

Good practice Economy	Procedures (number)	Time (days)	Cost (% of claim)
Luxembourg (1st)	26	321	9.7
Selected economy Russia (18th)	18	281	13.4

We see that Russia outperforms Luxembourg in respect of the procedures and time required for the good performance or termination of a contract or commercial agreement between two interested parties, with significant numerical differences. However, it performs less well in the cost involved in the event of one of the parties resorting to the courts to seek damages, in the time taken for the final rulings to be issued and the case to be resolved definitively⁴⁶. We see here the problem of the rapidity of hearing of cases by the country's courts. The system needs to improve its efficiency, making provision for cases where contracts do not proceed smoothly.

⁴⁶ The major costs involve the lawyer's fee (attorney cost, % of claim) and court costs (court cost, % of claim), at 10.0 and 3.4 respectively. Doing Business, 2011, "Making a Difference for Entrepreneurs", 2011.

RESULTS

Hot Spots

Russia's advantages and key challenges

As we have said earlier in this study, Russia has advantages which place it in a favourable position in the global context of the international economy. The sheer size of the country (in surface area and population), its location (proximity to the European Union and the broader region of Asia, as well as South America on the Pacific side), its huge reserves of natural resources and its low labour costs all represent very positive characteristics highly attractive to international business activities.

Natural resources

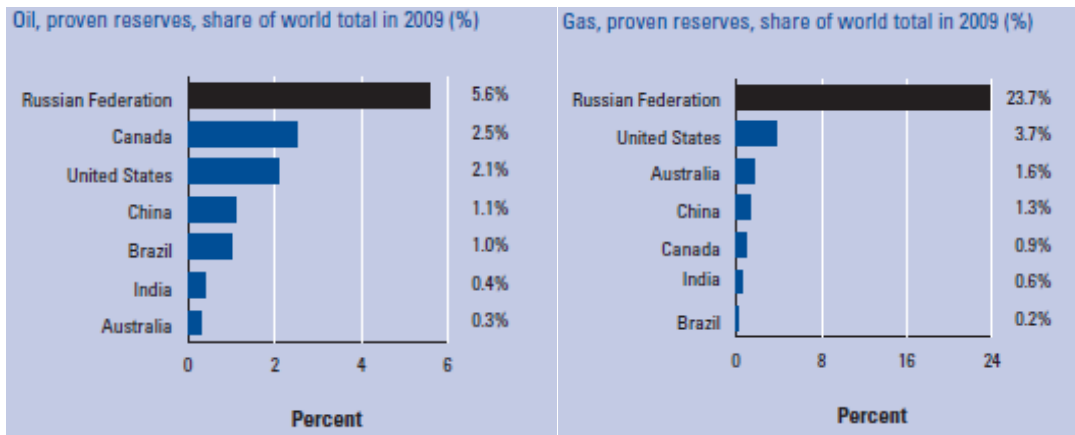


Russia is a superpower in the energy sector, the world's leader in the production of natural gas (41% of its production is consumed by western Europe)⁴⁷ and second to top in the production of oil. It is no accident that Europe feels the Russian embrace ever tighter in the area of energy sources, given that its energy dependence on Moscow is growing ever greater. The leaders of European states appear to be showing a preference for the other pipeline, the Nabucco, which will provide them with an alternative source of natural gas for Europe⁴⁸.

⁴⁷ The international gas pipeline South Stream will be finished by December 2015, while its construction will begin in 2013. The \$21.5 billion South Stream pipeline will transport up to 63 billion cubic meters of gas from Russia to Central and Southern Europe. Russia already provides 41 percent of Europe's gas imports. South Stream is owned 50-50 by Italy's ENI and Gazprom. Electricite de France is to take a 10% stake later this year, while Wintershall AG will take a 15 % stake. Global Business in the Journal "The New York Times" at:

http://www.nytimes.com/2011/03/23/business/global/23pipeline.html?_r=2&partner=rss&emc=rss

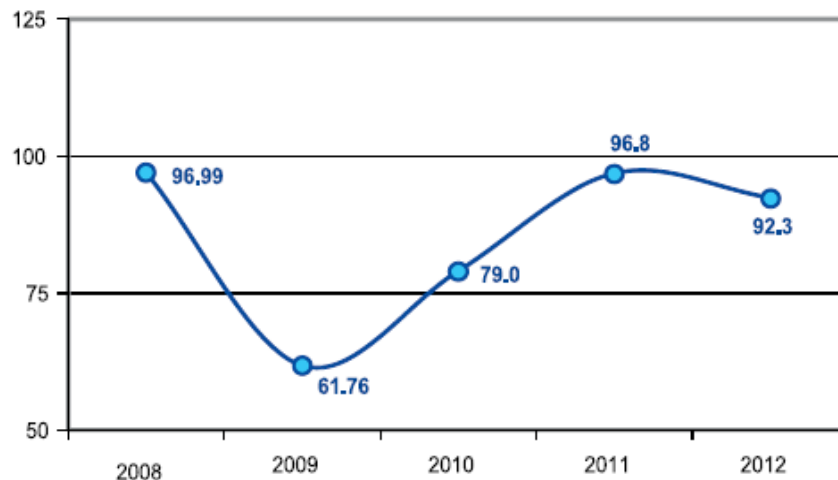
⁴⁸ In the newspaper *Eleftherotypia*, Economy supplement, 23-24/4/2011, article by Alexander Medvedev, «South Stream deserves support», and NABUCCO - South Stream, «A tough game of poker over natural gas», article by V. Georgas, *ibid.*, p. 15.



The tables above illustrate the position held by Russia in world reserves of oil and gas.

The tables which follow show World Bank predictions⁴⁹ for oil price trends between now and 2012. If these forecasts are accurate, they will obviously provide a major boost to Russian development and allow the country to distribute the surplus from its exports, paying more attention to other more problematic areas like the agricultural sector.

World Bank Oil Price Forecast for Average Crude: Brent, Dubai and West Texas Intermediate (WTI), single average, US\$/barrel



To date, however, Russia has not used its revenues from exports of oil⁵⁰ and gas to invest adequately in the country's interior (for example – in heavy industry, facilities and other export businesses) in order to increase productivity and economic stability.

The result is that Russia's budget is heavily dependent on the energy sector⁵¹.

⁴⁹ Russian Economic Report, World Bank Oil Price Forecast, at: <http://www.worldbank.org.russia>

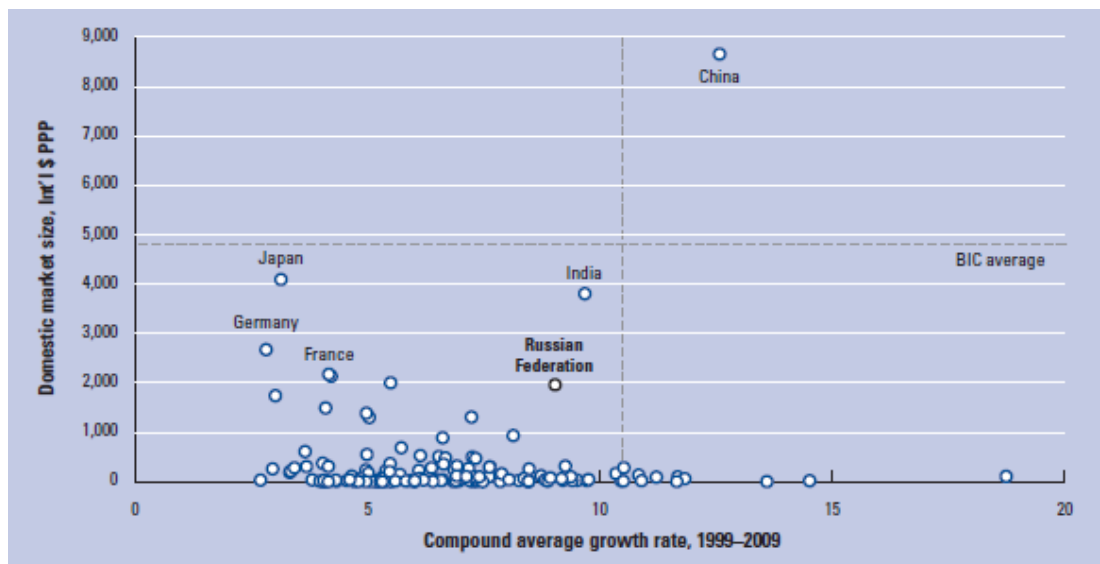
⁵⁰ In 2010 oil production amounted to 504.9m tons. The portion exported amounted to 247.9m tons (27.3% to CIS countries). The bulk of oil production originates from the Volga and Urals regions, with 21.2% and 60.8% of the total respectively. In respect of oil derivatives, in 2010 production levels were as follows: 36m tons of petrol, 69.9m tons of heating oil, 69.5m tons of fuel oil. Of this total, 119.2m tons were exported. It should be noted that the price of the said derivatives at home, in relation to the price abroad, is calculated at 68.8%, 71.3% and 56.1% in respect of petrol, diesel and fuel oil respectively. Source: Greek Embassy in Moscow, Annual Report on the Economy of the Russian Federation 2010, June 2011.

⁵¹ <http://www1.minfin.ru/en/nationalwealthfund> and <http://www1.minfin.ru/en/reserefund>

We have already referred to increases in wages and incomes in Russia. These have been the result of the favorable conjunction of continual increases in the prices of oil and its derivatives, which in turn have allowed the accumulation of a substantial trade surplus⁵².

Market size

Market size: Russian Federation and markets bordering Russia⁵³



Notes: Calculations based on GDP PPP. EEA + EFTA = European Economic Area and European Free Trade Association; MERCOSUR = Mercado Común del Sur, or Southern Common Market; NAFTA = North American Free Trade Agreement; and SAARC = South Asian Association for Regional Cooperation.

The table above shows the scale of the Russian market when compared with those of its neighbours and of France and Germany. A market this large will be seriously attractive to foreign direct investments, bringing transfer of expertise and an increase in domestic trade among the remoter Russian regions. Moreover, Russia's geographical position gives it an additional advantage in terms of exports to the major global markets such as the European Union, China and South America⁵⁴.

At this point, however, we should remind the reader of the prohibitive cost of exporting products (sub-pillar Cost to export, US\$/container, 1,850) a highly significant obstacle to further growth in the export of Russian products.

Highly educated population

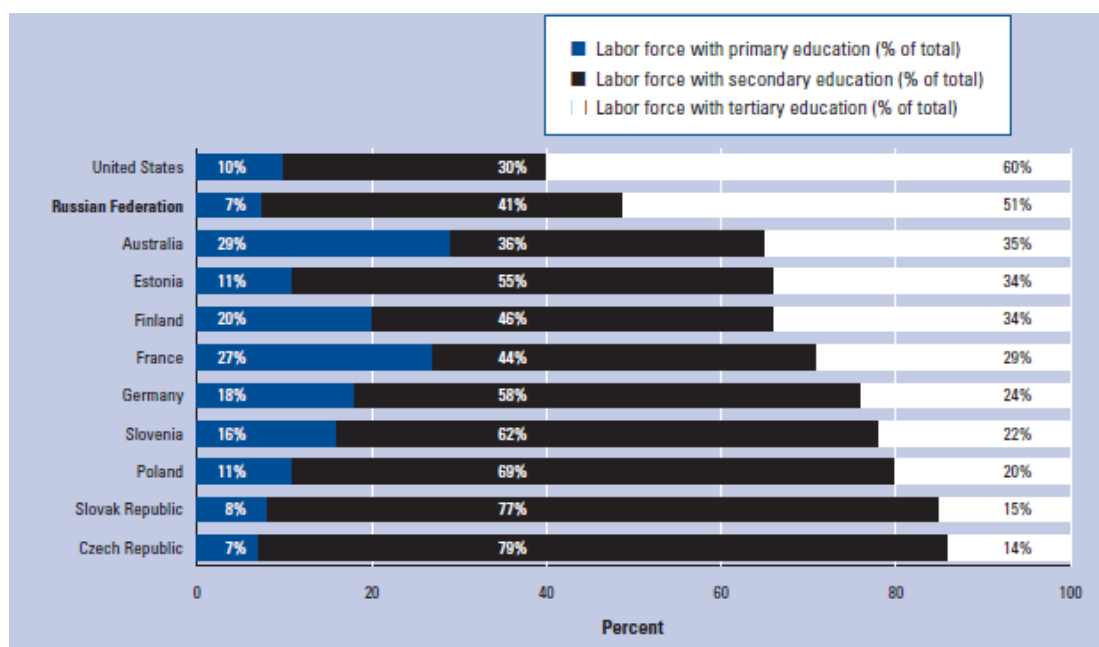
The legacy of the Soviet era, with its fundamental tenet that 'everyone has the right to an education' is still helping Russia to score very highly on global rankings of labour force skills – at all levels of education.

⁵² <http://www.agora.mfa.gr/agora/images/docs/rad1B612ANNUALREPORT2009.pdf>

⁵³ Russian Economic Report, World Bank Oil Price Forecast, at: <http://www.worldbank.org.russia>

⁵⁴ Russia has signed regional trading agreements with some of its neighbours—notably, with Commonwealth of Independent States (CIS) countries as well as separate agreements with Armenia, Georgia, the Kyrgyz Republic, and Ukraine. More recently (forced by 1-7-2010), Russia entered an agreement on the Common Economic Zone (CEZ) with Kazakhstan, Belarus, and Ukraine.

Labor force by level of education, 2006



With its high proportion of workers with university education (51%) Russia is ranked well ahead of countries like Australia, Finland and even France, competing directly with the USA. The same is true of workers with secondary education, while in terms of workers with only primary education, at 7%, it is only outscored by the USA (10%).

Russia has, therefore, an adequate supply of researchers and scientists able to pursue upgrading and growth in areas of development, construction and research, and also in the services sector.

Peace and Political stability

In recent years Russia and its citizens have been able to enjoy a much-desired absence of conflict, with almost three years having now elapsed since the last clash between Russia and Georgia over issues relating to the seceded regions of Abkhazia and South Ossetia⁵⁵. There are also indications of improvement, after many years of conflict, with the war of resistance waged by the Muslims of the autonomous former Soviet Republics like Chechnya, Dagestan, Ingushetia, the Kabardino-Balkaria region and the areas of the northern Caucasus, showing signs of abating. Of course, the Russian ranking in the Global Peace Index is disappointing, as are the findings of research under certain individual indicators.

⁵⁵ **International Crisis Group** (ed): *Russia vs. Georgia: The Fall Out*, Tbilisi, Brussels 2008, (ICG Europe Report Nr. 195), pp.1-4

The table shows Russia's ranking in the Central and Eastern Europe region, with the country placed 147th out of a total of 153 countries globally, and in last place in its own region (29th). It is significant that Russia scores lower even than traditionally unstable countries like Yemen, Zimbabwe, Pakistan and Chad in Africa⁵⁶.

Central and Eastern Europe	Overall Rank	Overall Score	Regional Rank
Czech Republic	5	1.32	1
Slovenia	10	1.36	2
Hungary	20	1.50	3
Poland	22	1.54	4
Slovakia	23	1.58	5
Croatia	37	1.70	6
Romania	40	1.74	7
Lithuania	43	1.76	8
Latvia	46	1.79	9
Estonia	47	1.80	10
Bulgaria	53	1.85	11
Moldova	59	1.89	12
Bosnia and Hercegovina	60	1.89	13
Albania	63	1.91	14
Ukraine	69	1.99	15
Macedonia	78	2.05	16
Serbia	84	2.07	17
Montenegro	89	2.11	18
Kazakhstan	93	2.14	19
Tajikistan	103	2.22	20
Turkmenistan	108	2.25	21
Uzbekistan	109	2.26	22
Armenia	109	2.26	22
Belarus	112	2.28	24
Kyrgyz Republic	114	2.30	25
Azerbaijan	122	2.38	26
Turkey	127	2.41	27
Georgia	134	2.56	28
Russia	147	2.97	29
Average	73	2.00	

137	Lebanon	2.597
138	Yemen	2.670
139	Colombia	2.700
140	Zimbabwe	2.722
141	Chad	2.740
142	Nigeria	2.743
143	Libya	2.816
144	Central African Republic	2.869
145	Israel	2.901
146	Pakistan	2.905
147	Russia	2.966
148	Democratic Republic of Congo	3.016
149	North Korea	3.092
150	Afghanistan	3.212
151	Sudan	3.223
152	Iraq	3.296
153	Somalia	3.379

This period of peace has been of vital importance to Russia's macroeconomic development and over the last few years it has shown a substantial development dynamic and stability in its economic indicators.

By opening up political channels to the West (the philosophy of 'gentle force') and adopting new roles such as that of the peacemaker in the Middle East, former President Putin and current President Medvedev seek to recover the role of a leading power in their own region and farther afield⁵⁷.

⁵⁶ INSTITUTE FOR ECONOMIC AND PEACE, GLOBAL PEACE INDEX (GPI), at: <http://www.visionofhumanity.org/wp-content/uploads/2011/05/2011-GPI-Results-Report-Final.pdf>

⁵⁷ Newspaper *O Kosmos tou Ependyti*, supplement *Strategist*, article by G. Protopapas, «Peacemaker or superpower: that is the question», 28/5/2011, issue 31, p. 23.

Thus Moscow has worked closely with the USA to combat the Taliban in Afghanistan, has not taken easy decisions which might have compromised the territorial integrity of other states (such as Libya and Syria) and has used its great advantage of inexhaustible energy reserves to extend its cooperation in the political and energy sectors (NATO, European Union, construction of pipelines, etc.)⁵⁸.

2012 is a year of general elections in Russia and the world is holding its breath, since the conditions generated by the actions of the two candidates for President – current President Medvedev and former President Putin – are irreconcilable. Relations between them are tense, there are public disagreements, direct and indirect criticism of the other from each side and different stances on major political issues. Political analysts maintain that Putin is a better campaigner, while in a recent article in the *Financial Times* it was pointed out that these tensions are not helping the country, since they create nervousness in the market and among businessmen, with an adverse impact on investment – some 26.3 billion dollars were removed from the country in just the first quarter of 2011⁵⁹.

At the recent Economic Forum in St. Petersburg, the Russian leaders presented a display of strength and confidence, as if the international economic crisis was of no concern to them. They were aware that they are the centre of economic decision-taking for many countries – of the West, the Near East and Asia. At the present time Moscow is in a very strong position in respect of oil supplies, with the crisis which broke out almost a year ago in the Middle East and the appalling – in size and seriousness – nuclear accident at Fukushima in Japan.

The first of these developments sent the price of ‘black gold’ soaring, while the second favoured exports of natural gas to Germany and Italy, where decisions were taken to halt the development of nuclear power stations⁶⁰. Also - because developments have been rapid, with the downgrading of the USA’s credit rating by Standard & Poor’s from triple-A to AA+ - Russia caused a sensation with its assertion that it might be time for the world to find an alternative global reserve currency to the American dollar. At present Russia and other European and non-European countries hold some \$115.2 billion of American debt⁶¹.

In view of all the above, as well as the other data we have studied in detail in this dissertation, there is no doubt of the great wealth of Russia, which cannot be questioned by even the most sceptical of political and economic analysts. Why is it, then, that Russia has seemed unable to benefit from and increase the potential it enjoys from these unique characteristics, to improve its competitiveness and the living standards of its citizens?

⁵⁸ *Kathimerini* newspaper, in supplement *Thema*, «*The secrets of the Caucasus*», 8/2008, by Reuters,

⁵⁹ Committee for Russian Economic Freedom, at: <http://russianeconomicfreedom.org/2011/05/06/26-3-billion-in-capital-flight-in-through-april/>

⁶⁰ the TRUMPET com, “Germany and Russia: Cooperation Increases”, at: “<http://www.thetrumpet.com/?q=8382.7077.0.0>”

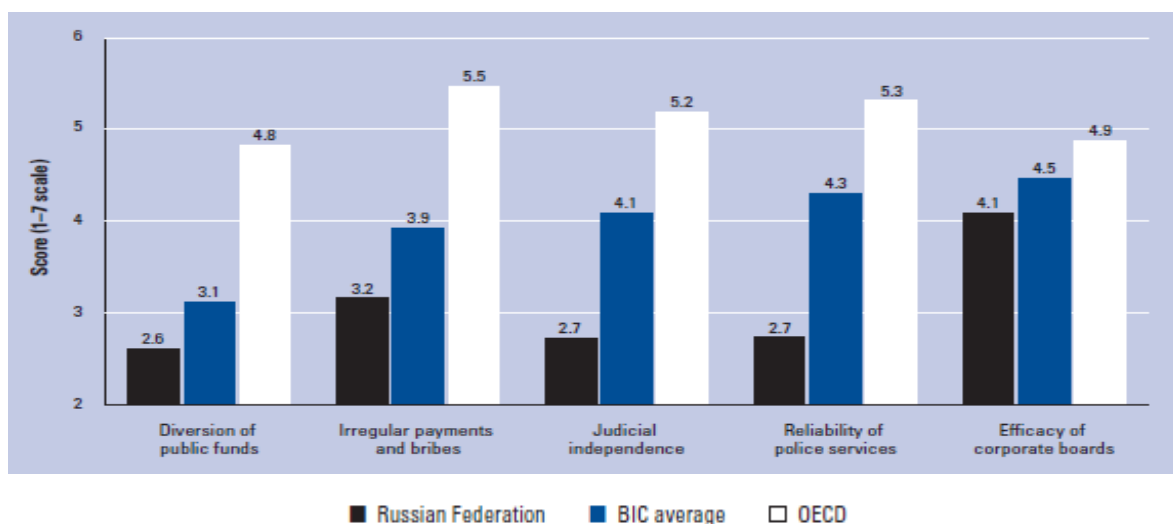
⁶¹ Journal “THE TIMES”, Economy News, “*Time to downgrade the President, say critics as US braces itself for a sell-off*” by G. Whittell and N. Hines, Washington, Monday, August 8 2011, p 12, 13

There are weaknesses and challenges which every right-minded politician must deal with, and they have already been pointed out by the President of Russia, Dimitri Medvedev. He referred to the burning issues facing his country in his speech to the Economic Forum in St. Petersburg. Medvedev, or whoever replaces him after the 2012 elections, will have to make these issues the core of his reforms of the Russian economy in the very near future. The challenges include a radical restructuring of the country's institutional framework, an improvement of efficiency in the markets for goods and services, stability in the financial sector, and the major problem of the declining Russian population.

Key Challenges

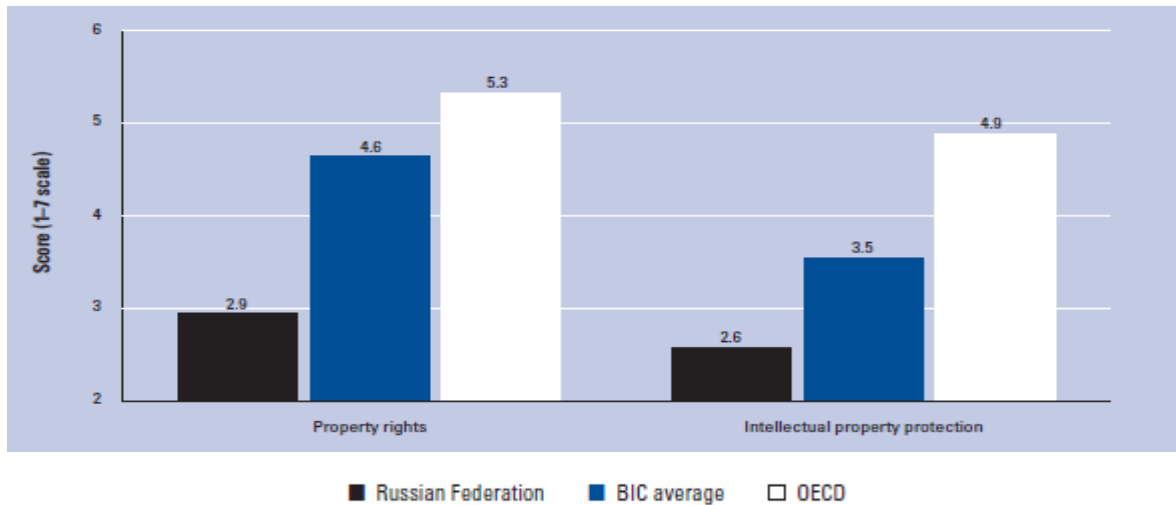
Reform of the institutional framework is stalling in various areas of key importance which require immediate action, such as property rights, where it is essential to strengthen protection of land ownership, to facilitate the acquisition of land, as well as the protection of intellectual property. All these areas still fall way below international standards, despite attempts at reform over recent years.

GCI 2010–2011 scores on selected institutional indicators



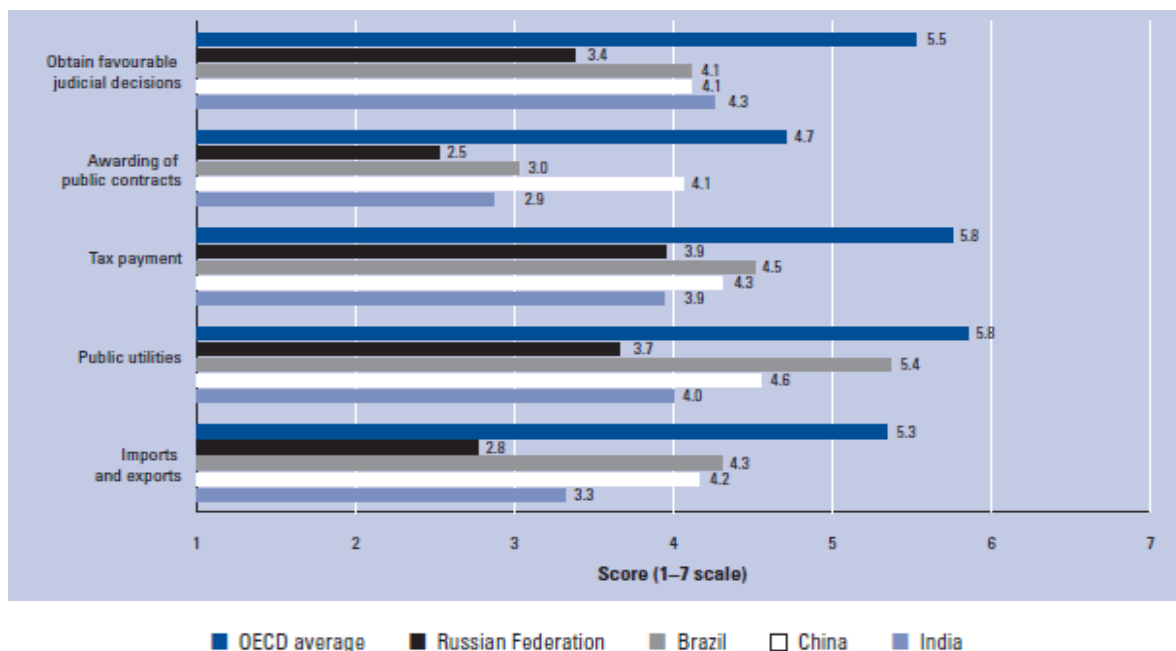
The table above presents a comparison of Russia with other groups of countries, such as the BIC and OECD, under various indicators in the sub-pillar Institutions (118/3.2), while the graph below shows the Russian performance in the areas of Property rights and Intellectual property protection (rank 128 and 119 respectively), again when compared with other groups of countries.

Property rights indicators



The greatest scourges afflicting Russia at present are corruption and the abuse of power – the influence of the state in every guise this can take. This is perhaps the greatest impediment to development and expansion of the economy, and thus of the potential of Russia to lead an economic miracle in the Asian region. The graph below shows levels of corruption in various areas of state activity.

Corruption levels in Russia.



The results are disappointing, with Russia ranked bottom on all indicators. (World Economic Forum in collaboration with Eurasia Competitiveness Institute)⁶².

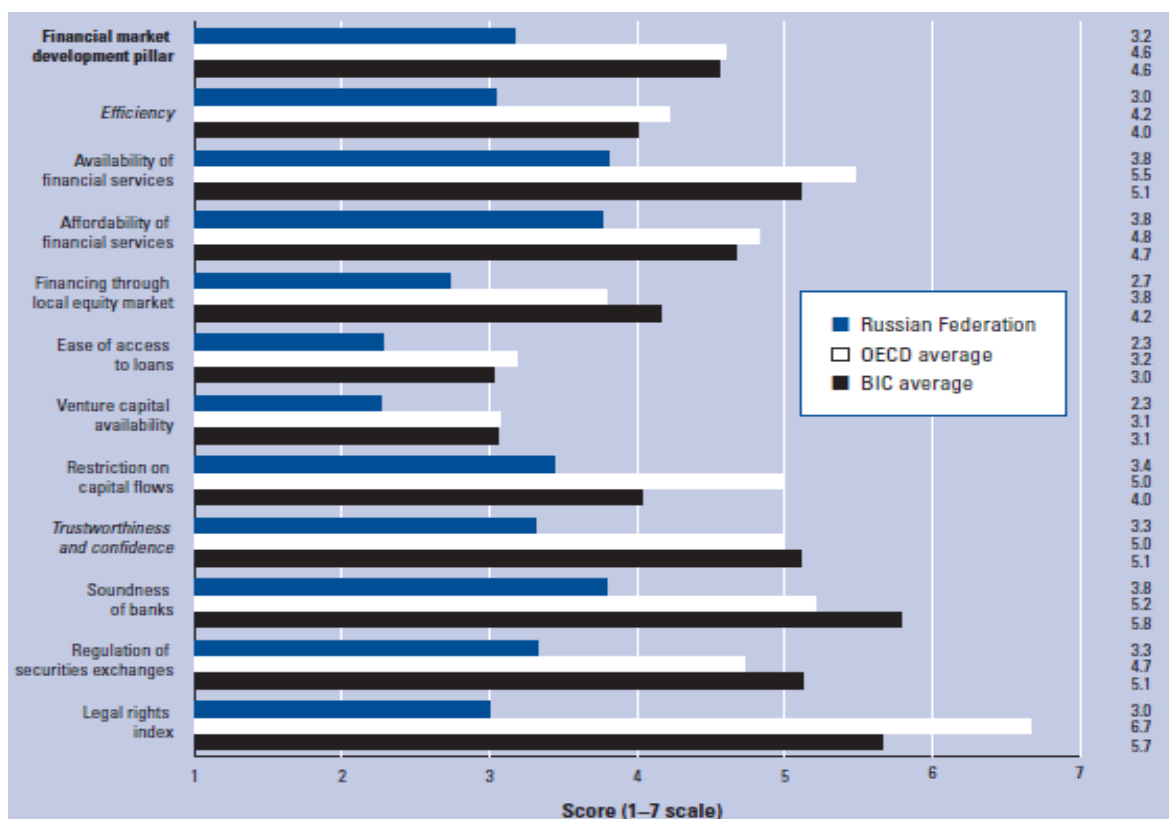
⁶² Over the past few years, Russia has made some efforts to improve the rule of law and to fight corruption. These efforts have led to a small improvement in the score of the institutions pillar between 2007 and 2008, and the country stabilized its score at a higher level in subsequent years. Yet these advances were not sufficient for the country to catch up with China or Brazil, for example, both of which made even greater progress over this period of time. Yet further improvements are indispensable if the country is serious about raising competitiveness. World Economic Forum, 2011.

It is an open secret that illegitimate influence and the abuse of power lie at the very heart of the state, affecting its administrative functions and also the workings of justice, since the judiciary is regarded as ineffective and unwieldy, its decisions often unjust and subject to excessive delay. An increase in competitiveness will depend directly on a reform of the workings of the country's institutional framework.

The dominant position of some major Russian businesses in the country's market places serious obstacles in the way of trade and investment. Also, the involvement of the state on many levels has a negative impact on competition and discourages entrepreneurship. The tax problem also causes various distortions and prevents the promotion of investment. The Russian market is still closed to foreign investors owing to the obstacles to all forms of transaction, the main problems being in the area of customs and tax issues. (World Economic Forum in collaboration with Eurasia Competitiveness Institute).

Another requirement for the development of competitiveness and affluence in Russia is the stabilization of the financial markets, which would allow businesses more direct access to funding. There have been efforts to strengthen the banking sector, but more needs to be done to increase stability if future crises are to be avoided. The market also needs to be more efficient if it is to provide the necessary capital for business investment, while the banks themselves need to be more aware of the need to improve their performance.

Russia's results on the financial market development pillar in international comparison, 2009–10



The table above shows that in terms of international comparison on key elements of economic growth of the market, using the GCI Financial market development index, Russia lags far behind the average of the OECD countries, and also behind that of the other major emerging markets like Brazil, China and India, in areas such as reliability and confidence in the financial system, and the efficiency of the financial sector. (World Economic Forum, 2011).

However, Russia's main problem remains its own citizens, with studies showing a contraction in population owing to ageing, an increasing mortality rate, a decrease in fertility – all having an adverse effect on the size of the labour force.

Despite the great efforts at reorganization and reconstruction under *perestroika*, and the transition from a state-controlled to a free market economy within a global economic context (the Putin era), Russian society still faces many problems. These include organized crime, the disintegration of the welfare state, social inequalities and the total version of capitalism which brings in its wake falling incomes and unemployment. The phenomenon of migration has re-surfaced, and the demographic problem has now assumed enormous dimensions, with the total population of the country declining steadily according to Russian Statistical Service figures⁶³.

The aforementioned policies, in conjunction with the transitional period in which the Russian state was to adjust to western models, have led to the collapse of the welfare state, increasing hardship and poverty and undermining the institution of the family, with divorces becoming far more common thanks to the unbridled consumption of alcohol⁶⁴. Prostitution has thrived and offered fertile ground for exploitation by organized crime.

There are many numbers of other alarming social parameters, such as rising unemployment, inequality in distribution of income, increase in inflation and consumer goods prices, while indicators measuring education, health and access to cultural goods are all in decline. The table below illustrates the steady decline in the Russian population by 2050 - figures that are truly discouraging.⁶⁵

⁶³ Legvold, P., (2001), “*Russia's Unformed Foreign Policy*”, Foreign Affairs, vol. 4 September/October, p. 56

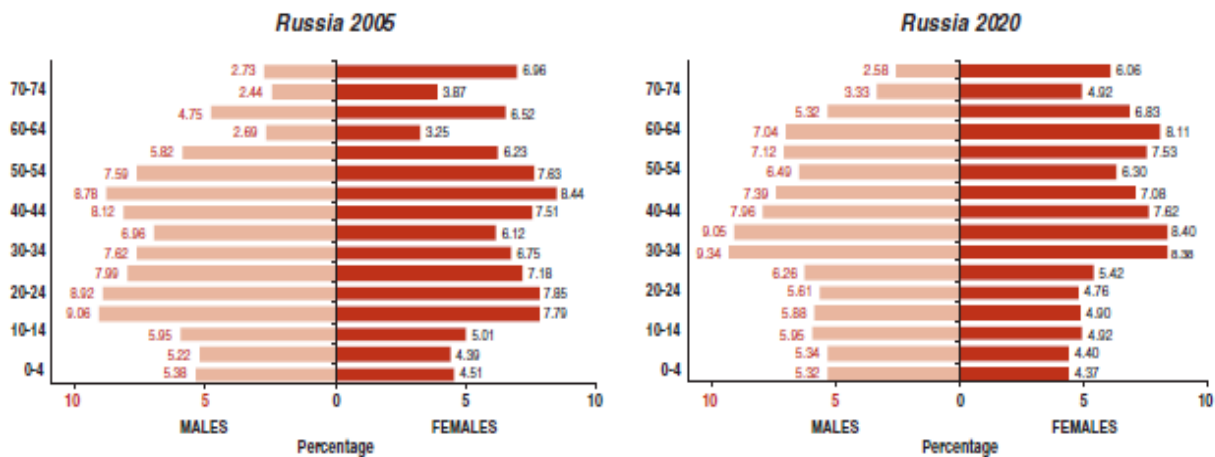
⁶⁴ **Alcohol abuse:** Alcohol abuse (heavy or binge drinking) is a major risk factor and public health problem in Russia. Adult per capita alcohol consumption in 1999 was 10.7 liters per adult in Russia versus 8.6 liters in the United States and 9.7 in the United Kingdom. Although these levels are not dissimilar, the key difference is that 75 percent of the alcohol consumed in Russia is spirits, whereas in the United Kingdom and the United States, 56 and 60 percent, respectively, is beer. Recent data from the Russian Longitudinal Monitoring Survey (RLMS) indicate that in 2002, alcohol consumption increased 14.5, 2.4, and 1.1 liters per year among men, women, and teenagers, respectively. In 2004, about 70 percent of men, 47 percent of women, and 30 percent of teenagers were drinkers. Russians in rural areas drink more alcohol of poorer quality than people in cities, as demonstrated by a long-standing tendency of higher morbidity due to alcohol poisoning among rural populations. In an ongoing case-control study in Izhevsk (a city in the Urals), an interim analysis shows that, of 1,400 deaths from all causes among all male residents aged 25-54 years in 2003-2004, 18 percent were certified as alcohol related: mental disorders due to alcohol; alcoholic cardiomyopathy; alcoholic cirrhosis of the liver; and acute alcohol poisoning. Europe and Central Asia Region, Human Development Department, Russia Country Management Unit, World Bank “*Dying too Young*”, at: <http://siteresources.worldbank.org/INTECA/Resources/DTY-Final.pdf>

⁶⁵ Internet World Stats, at: <http://www.internetworldstats.com/stats8.htm>

TOP TEN COUNTRIES WITH THE HIGHEST POPULATION					
#	Country	2000 Population	2010 Population	2011 Population	2050 Expected Pop.
1	China	1,268,853,362	1,330,141,295	1,336,718,015	1,303,723,332
2	India	1,004,124,224	1,173,108,018	1,189,172,906	1,656,553,632
3	United States	282,338,631	310,232,863	313,232,044	439,010,253
4	Indonesia	213,829,469	242,968,342	245,613,043	313,020,847
5	Brazil	176,319,621	201,103,330	203,429,773	260,692,493
6	Pakistan	146,404,914	184,404,791	187,342,721	276,428,758
7	Bangladesh	130,406,594	156,118,464	158,570,535	233,587,279
8	Nigeria	123,178,818	152,217,341	155,215,573	264,262,405
9	Russia	146,709,971	139,390,205	138,739,892	109,187,353
10	Japan	126,729,223	126,804,433	126,475,664	93,673,826
TOP TEN Countries		3,618,894,827	4,016,489,082	4,054,510,166	4,950,140,178
Rest of the World		2,466,012,769	2,829,120,878	2,875,544,988	4,306,202,522
TOTAL World Population		6,084,907,596	6,845,609,960	6,930,055,154	9,256,342,700

Note: The Top 10 Most Populated Countries of the World Table was updated for March 31, 2011. Demographic (population) estimates for years 2000, 2010, 2011 and 2050 are based on data from the [US Census Bureau](#) website.

The Population Structure, 2005 and 2020



The graphs above show clearly the contracting population of young people and the process of demographic ageing, with the proportion of the population aged over 60 steadily increasing. These developments are due to low levels of fertility and high levels of fertility among older age groups⁶⁶.

The continually declining population of Russia is to be explained by many factors: we have already mentioned alcoholism and low fertility, but there are also such factors as violence and local conflicts, heart disease, strokes and diabetes, as well as industrial accidents.

⁶⁶ Europe and Central Asia Region, Human Development Department, Russia Country Management Unit, World Bank “Dying too Young”, at: <http://siteresources.worldbank.org/INTECA/Resources/DTY-Final.pdf>

All the above lead to a fall in expected lifespan, especially among the male population and those of working age.

Naturally, all the above are a serious drag on the economic development of the country and its competitiveness, directly affecting macroeconomic indicators, since according to a study by the World Health Organization in 2005 Russia had lost around 11.1 billion dollars of national income as a result of deaths from heart disease, strokes and diabetes, with this figure expected to increase to 66.4 billion dollars by 2015. These figures would represent 1% of Russian GDP for 2005, and over 5% of GDP in 2015⁶⁷.

⁶⁷ Europe and Central Asia Region, Human Development Department, Russia Country Management Unit, World Bank “*Dying too Young*”, at: <http://siteresources.worldbank.org/INTECA/Resources/DTY-Final.pdf>

A radical proposal

The steady rise in oil prices gives the Russian Federation a clear competitive advantage and allows it to look forward to the immediate future with optimism. Despite fluctuations or even major falls in the prices of its energy reserves, the country's economic base or driving force remains its immense supplies of energy. These will support and strengthen the Russian economy and its internal stability, giving it the major advantage of a full recovery as a superpower in the Eurasian region, or at least as a major energy player with direct collaborations with Europe and America. Russia's energy reserves can transform the country into a superpower that has nothing in common with its Soviet past, where it owed its power to nuclear weapons and military tensions. Oil production must not be used to support a massive military-industrial power.

Russia has all the resources to turn itself into a peaceful superpower, not owing to its military strength and interventions in other states, but to its economic growth and the opportunities it will offer to neighbouring states. Many political and economic commentators speak of the so-called 'curse' of Russia's resources, in the sense that its economic power depends largely on oil and exports of natural gas, allowing it to ignore other key areas of the country and social sectors such as education and health care. These negative aspects of the Russian situation seem, however, less serious when one remembers that the Soviet era has bequeathed to Russia a lead in knowledge and technology which it still enjoys today.

It should therefore be possible, and necessary, to promote radical measures for the long-term development of the country through the energy sector. Russia's leaders must respond to the dilemma of how they want to, and should, make use of their country's great wealth in energy reserves in order to develop or devise new advantages for Russia and to support those parts of the population most afflicted by phenomena of unemployment and poverty.

Research in preparation for this study has shown the need for the Russian economy to be restructured in such a way as to free it from fluctuations in energy prices. Capital must be invested in new industrial projects to create a more balanced economy.

The Russian government must also change the legal framework on property and provide immediate solutions to regularize the difficult conditions facing direct foreign investors. It must modernize the tax system, also, to maximize development opportunities. Russia's potential for growth is substantial, with opportunities for close cooperation with the former Soviet Republics, the European Union, the massive Chinese market and the United States.

On the other hand, Russia's partners in all areas, whether in the energy or military field or in the political/cultural sector, must encourage the country to enter into collaborations which will promote peaceful, cultural programmes to the benefit of the long-suffering Asian regions, particularly the Caucasus, and indeed the broader region of Europe – since the citizens of Europe depend directly on the uninterrupted flow of Russian energy.

How, then, could the 'blessing' of huge energy reserves positively affect the development of other vital sectors in the Russian economy? Let us take as a small example the framing and implementation of strategic decisions concerning the country's road network.

The reader will be aware that as one of the world's largest oil exporters Russia also develops oil derivatives such as petrol and heating oil. We have already mentioned the exorbitant cost of constructing a new road in Russia, when compared with China, the USA or EU, and the soaring road construction costs in the capital, Moscow. One might expect that the construction of roads might be the easiest of projects in the Russian Federation, if one overlooked the need to bribe the competent state employees, and perhaps the ignorance of the labour force. It is, however, hard to believe that the primary material, used in all the world's roads, i.e. tar, is unavailable.

What could be more logical, given the huge size of Russia and its need for roads, in different climate conditions, that steps should be taken to construct at least two tar factories, using the latest scientific developments and construction methods, in order to tackle the major problem faced by the country's road network.

Russia's road network is huge, traversing almost the whole of Asia, at some points joining the network of China and reaching the borders of the European Union. Its motorways carry millions of tons of goods, often under very difficult conditions.

Thus the good state of repair of the roads and their extension to reach new markets, or the replacement of old road arteries with new and shorter routes, would be of great help to Russia's competitiveness and to opening up its markets to potential new buyers.

The working hypothesis begins with the existence of tar factories, close to the facilities producing oil. Specialists in the energy sector would easily be able to develop scientific methods of production or enrichment, applying innovative methods to produce tar with resistance to all climate conditions.

The location of these factories would need to be central, with smaller local units close to the road construction sites (later to be involved in road maintenance). This would reduce transport costs, cut the current huge delays in implementation and reduce opportunities for corruption. With Russia's existing system of oil pipelines it should be possible to distribute oil for production of derivatives on the local level and at low cost.

A strategic plan, then, could be drawn up for a new road network, with land exchanges or compulsory purchases from farmers in rural areas, providing employment on construction sites, and later in service provision, for unemployed members of peasant families or experts located in the provinces, raising the question of priority for local hire. Road construction requires architects, topographers, engineers, planners as well as less-skilled technicians and laborers. It is certain, therefore, that there would be a positive response to an invitation from the Russian government, thereby absorbing some of the country's unemployed skilled and unskilled labour, whether from local or neighboring regions. The movement of a large number of people to work in other regions might have a positive impact on the major urban centres, which have suffered recently from an influx of migrants seeking work.

At the same time, development of new roads will reduce transport costs for goods, businesses will save time, not needing to use alternative routes, and the population will be able to move around the country more rapidly and safely. Products from Asian markets now being moved by air might more profitably be transported over a state-of-the-art road system that would bring them into European markets and to the shores of the Mediterranean.

To ensure the efficient operation of the road axes the government would need to charge tolls, with toll booths every 150-200km, to raise money for road maintenance, the charge gradually rising – for example, starting at 3Rb and then increasing to 6-7Rb. At the same time state-of-the-art service centres would need to be developed for road users, including modest accommodation, restaurants, service stations and automated bureaux de change.

It would be logical for the new road routes to follow the line of the natural gas pipelines which now extend in all directions across Russian territory. Also, the special characteristics of each region should be taken into account, their strengths and weaknesses, the culture of the local population and the needs in terms of development and expansion of small provincial cities. It is natural that new cities and towns should grow up around the new roads, and that existing cities and towns should receive a new lease of life, revitalizing the regions. Care must be taken to provide the proper utility systems and to prevent unregulated development.

To help the regions preserve their own culture it might be necessary to have differentiated utility tariffs, and care must be taken to provide proper education for children and health services.

This is a strategic plan whose impact would reach down to the lower levels of Russian society, involving everyone from the road sweeper to the technical expert and the family doctor. The development of remote and forgotten parts of the country could become a new driving force for the Russian economy. Imagine the local markets and exchanges of local produce, comprising almost the entire annual income of the permanent populations.

Yet it is not only Russia which has regions with different climatic conditions. There are other countries, European and non-European, too. Quality and expertise in road-surfacing products might prove to be the *'jewels in the crown'* of the Russian Federation, opening up huge export possibilities. Roads will always be with us, as they have been for centuries now. It is time that Russia developed a new *'silk route'* linking the peoples of distant Asia with the warm waters of the Mediterranean.

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SUPPLEMENT

TABLES

Global Competitiveness Index (GCI)

Table 1. GCI rank, (scores), E.U. 27 countries, 2004-2011

Table 2. GCI rank, (scores), BS – 10 countries, 2004-2011

Table 3.1 GCI, 2010-2011, scores/ranks, E.U.-27

Table 3.2, GCI, 2009-2010, scores/ranks, E.U.-27

Table 3.3, GCI, 2008-2009, scores/ranks, E.U.-27

Table 3.4, GCI, 2007-2008, scores/ranks, E.U.-27

Table 3.5, GCI, 2006-2007, scores/ranks, E.U.-27

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Table 3.7, GCI, 2004-2005, scores/ranks, E.U.-27

Table 4. GCI rank, score/pillar, BS-10 countries, 2010-2011

Table 5. GCI rank/pillar, E.U.27 countries, 2010-2011

Easy of Doing Business (EDB)

Table 6. EDB ranks for E.U.27 (9 pillars), 2010-2011

Table 7. EDB ranks for BS-10 (9 pillars), 2010-2011

Table 8. EDB rank per country, BS-10, 2005-2010

Table 9. EDB rank per country, E.U. 27, 2005-2010

Source: World Economic Forum, Global Competitiveness Reports, at:

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Table 1. GCI rank, (scores), E.U. 27 countries, 2004-2011

COUNTRIES	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
AUSTRIA	17 (5,20)	21(4,95)	17(5,32)	15(5,23)	14(5,23)	17(5,13)	18(5,09)
BELGIUM	25 (4,95)	31(4,63)	20(5,27)	20(5,10)	19(5,14)	18(5,09)	19(5,07)
BULGARIA	59 (3,98)	58(3,83)	72(3,96)	79(3,93)	76(4,03)	76(4,02)	71(4,13)
CYPRUS	38 (4,56)	34(4,54)	46(4,36)	55(4,23)	40(4,53)	34(4,57)	40(4,50)
CZECH REP.	40 (4,55)	38(4,42)	29(4,74)	33(4,58)	33(4,62)	31(4,67)	36(4,57)
DENMARK	5 (5,66)	4 (5,65)	4 (5,70)	3 (5,55)	3 (5,58)	5 (5,46)	9 (5,32)
ESTONIA	20 (5,08)	20(4,95)	25(5,12)	27(4,74)	32(4,67)	35(4,56)	33(4,61)
FINLAND	1 (5,95)	1 (5,94)	2 (5,76)	6 (5,49)	6 (5,50)	6 (5,43)	7 (5,37)
FRANCE	27 (4,92)	30(4,78)	18(5,31)	18(5,18)	16(5,22)	16(5,13)	15(5,13)
GERMANY	13 (5,28)	15(5,10)	8 (5,58)	5 (5,51)	7 (5,46)	7 (5,37)	5 (5,39)
GREECE	37 (4,56)	46(4,26)	47(4,33)	65(4,08)	67(4,11)	71(4,04)	83(3,99)
HUNGARY	39 (4,56)	39(4,38)	41(4,52)	47(4,35)	62(4,22)	58(4,22)	52(4,33)
IRELAND	30 (4,90)	26(4,86)	21(5,21)	22(5,03)	22(4,99)	25(4,84)	29(4,74)
ITALY	47 (4,27)	47(4,21)	42(4,46)	46(4,36)	49(4,35)	48(4,31)	48(4,37)
LATVIA	44 (4,43)	44(4,29)	36(4,57)	45(4,41)	54(4,26)	68(4,06)	70(4,14)
LITHUANIA	36 (4,57)	43(4,30)	40(4,53)	38(4,49)	44(4,45)	53(4,30)	47(4,38)
LUXEMBOURG	26 (4,95)	25(4,90)	22(5,16)	25(4,88)	25(4,85)	21(4,96)	20(5,05)
MALTA	32 (4,79)	35(4,54)	39(4,54)	56(4,21)	52(4,31)	52(4,30)	50(4,34)
NETHERLANDS	12 (5,30)	11(5,21)	9 (5,56)	10(5,40)	8 (5,41)	10(5,32)	8 (5,33)
POLAND	60 (3,98)	51(4,00)	48(4,30)	51(4,28)	53(4,28)	46(4,33)	39(4,51)
PORTUGAL	24 (4,96)	22(4,91)	34(4,60)	40(4,48)	43(4,47)	43(4,40)	46(4,38)
ROMANIA	63 (3,86)	67(3,67)	68(4,02)	74(3,97)	68(4,10)	64(4,11)	67(4,16)
SLOVAKIA	43 (4,43)	41(4,31)	37(4,55)	41(4,45)	46(4,40)	47(4,31)	60(4,25)
SLOVENIA	33 (4,75)	32(4,59)	33(4,64)	39(4,48)	42(4,50)	37(4,55)	45(4,42)
SPAIN	23 (5,00)	29(4,80)	28(4,77)	29(4,66)	29(4,72)	33(4,59)	42(4,49)
SWEDEN	3 (5,72)	3 (5,65)	3 (5,74)	4 (5,54)	4 (5,53)	4 (5,51)	2 (5,56)
U.K.	11 (5,30)	13(5,11)	10(5,54)	9 (5,41)	12(5,30)	13(5,19)	12(5,25)
EU27	4,83	4,70	4,89	4,74	4,75	4,69	4,70
Number of countries	104	117	125	131	134	133	139
BS-10 av.	(3,76)	(3,60)	(3,97)	(3,97)	(4,02)	(4,03)	(4,04)

Global Competitiveness Index (GCI), 2004/5 & 2005/6 Scores based on three subindexes: Public Institutions Index, Macroeconomic Environment Index, Technology Index

Global Competitiveness Index (GCI), from 2006/7 – 2010/11 based on different subindexes such as: Basic Requirements, Efficiency Enhancers, Innovation and Sophistication Factors which they included 12 pillars, such as: *Institutions, Infrastructure, Macroeconomic stability, Health and primary education, higher education and training, Goods market efficiency, Labour market efficiency, Financial market sophistication, Technological readiness, Market Size, Business sophistication, Innovation.* **Source:** World Economic Forum,2010/11.

Table 2. GCI rank, (scores), BS – 10 countries, 2004-2011

COUNTRIES	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
ARMENIA	- (-)	79 (3,44)	82 (3,75)	93 (3,76)	97 (3,73)	97 (3,71)	98 (3,76)
AZERBAIJAN	- (-)	69 (3,64)	64 (4,06)	66 (4,07)	69 (4,10)	51 (4,30)	57 (4,29)
BULGARIA	59 (3,98)	58 (3,83)	72 (3,96)	79 (3,93)	76 (4,03)	76 (4,02)	71 (4,13)
GEORGIA	94 (3,14)	86 (3,25)	85 (3,73)	90 (3,83)	90 (3,86)	90 (3,81)	93 (3,86)
GREECE	37 (4,56)	46 (4,26)	47 (4,33)	65 (4,08)	67 (4,11)	71 (4,04)	83 (3,99)
MOLDOVA	- (-)	82 (3,37)	86 (3,71)	97 (3,64)	95 (3,75)	- (-)	94 (3,86)
ROMANIA	63 (3,86)	67 (3,67)	68 (4,02)	74 (3,97)	68 (4,10)	64 (4,11)	67 (4,16)
RUSSIA	70 (3,68)	75 (3,53)	62 (4,08)	58 (4,19)	51 (4,31)	63 (4,15)	63 (4,24)
TURKEY	66 (3,82)	66 (3,68)	59 (4,14)	53 (4,25)	63 (4,15)	61 (4,16)	61 (4,25)
UKRAINE	86 (3,27)	84 (3,30)	78 (3,89)	73 (3,98)	72 (4,09)	82 (3,95)	89 (3,90)
Number of countries	104	117	125	131	134	133	139
BS-10 av.	(3,76)	(3,60)	(3,97)	(3,97)	(4,02)	(4,03)	(4,04)

Source: World Economic Forum

Note: GCI is measured in a scale of 1,0 (minimum) to 7,0 (maximum)

Best performer

Worst performer

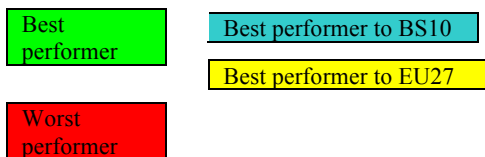
Ease of Doing Business (EDB) Index							
Table 8. EDB rank per country, BS-10, 2005-2010							
Economy	2005	2006	2007	2008	2009	2010	2005-2010
ARMENIA	46	34	39	44	43	48	-2
AZERBAIJAN	98	99	96	33	38	54	+44
BULGARIA	62	54	46	45	44	51	+11
GEORGIA	100	37	18	15	11	12	+88
GREECE	80	109	100	96	109	109	-29
MOLDOVA	83	103	92	103	94	90	-7
ROMANIA	78	49	48	47	55	56	+22
RUSSIA	79	96	106	120	120	123	-44
TURKEY	93	91	57	59	73	65	+28
UKRAINE	124	128	139	145	142	145	-21
NUMBER OF COUNTRIES	155	175	178	181	183	183	

Ease of Doing Business (EDB) Index							
Table 9. EDB rank per country, EU 27, 2005-2010							
Economy	2005	2006	2007	2008	2009	2010	2005-2010
AUSTRIA	32	30	25	27	28	32	0
BELGIUM	18	20	19	19	22	25	-7
BULGARIA	62	54	46	45	44	51	+11
CYPRUS	-	-	-	-	40	37	-
CZECH REPUBLIC	41	52	56	75	74	63	-22
DENMARK	8	7	5	5	6	6	+2
ESTONIA	16	17	17	22	24	17	-1
FINLAND	13	14	13	14	16	13	0
FRANCE	44	35	31	31	31	26	+18
GERMANY	19	21	20	25	25	22	-3
GREECE	80	109	100	96	109	109	-29
HUNGARY	52	66	45	41	47	46	-6
IRELAND	11	10	8	7	7	9	+2
ITALY	70	82	53	65	78	80	-10
LATVIA	26	24	22	29	27	24	+2
LITHUANIA	15	16	26	28	26	23	-8
LUXEMBOURG	-	-	42	50	64	45	-
MALTA	-	-	-	-	-	-	-
NETHERLANDS	24	22	21	26	30	30	-6
POLAND	54	75	74	76	72	70	-16
PORTUGAL	42	40	37	48	48	31	+11
ROMANIA	78	49	48	47	55	56	+22
SLOVAKIA	37	36	32	36	42	41	-4
SLOVENIA	63	61	55	54	53	42	+21
SPAIN	30	39	38	49	62	49	-19
SWEDEN	14	13	14	17	18	14	0
U.K.	9	6	6	6	5	4	+5
Number of countries	155	175	178	181	183	183	

Source: World Bank Ease of Doing Business Database

Table 4. GCI rank, score/pillar, BS-10 countries, 2010-2011

Pillars	2010/11	Basic Requirements				Efficiency Enhancers						Innovation	
		Institutions	Infra-structure	Macro-economics	Health & Primary Education	Higher education & training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
ARM	98(3.76)	97(3.50)	90(3.46)	99(4.23)	93(5.37)	91(3.66)	113(3.72)	47(4.61)	110(3.60)	108(2.96)	116(2.50)	109(3.33)	116(2.63)
AZE	57(4.29)	71(3.86)	76(3.69)	13(5.62)	83(5.50)	77(3.96)	93(3.92)	25(4.82)	71(4.12)	70(3.55)	76(3.46)	72(3.84)	61(3.16)
BUL	71(4.13)	114(3.29)	80(3.57)	42(5.00)	58(5.85)	67(4.14)	82(4.00)	58(4.51)	91(3.95)	48(4.01)	63(3.79)	95(3.52)	92(2.91)
GEO	93(3.86)	69(3.87)	73(3.75)	130(3.26)	73(5.64)	67(4.14)	90(3.74)	31(4.75)	108(3.82)	98(3.14)	107(2.80)	111(3.29)	125(2.51)
GRE	83(3.99)	84(3.67)	42(4.57)	123(3.61)	40(6.13)	42(4.67)	94(3.91)	125(3.71)	93(3.88)	46(4.06)	39(4.52)	74(3.83)	79(3.00)
MOL	94(3.86)	102(3.43)	97(3.18)	90(4.31)	84(5.50)	78(3.95)	104(3.83)	68(4.41)	103(3.68)	89(3.28)	121(2.40)	113(3.28)	129(2.49)
RO	67(4.16)	81(3.74)	92(3.44)	78(4.50)	63(5.77)	54(4.47)	76(4.08)	76(4.32)	81(4.01)	58(3.82)	43(4.41)	93(3.55)	87(2.94)
RUS	63(4.24)	118(3.22)	47(4.50)	79(4.50)	53(5.90)	50(4.60)	123(3.60)	57(4.50)	125(3.20)	69(3.60)	8(5.74)	101(3.50)	57(3.25)
TUR	61(4.25)	88(3.61)	56(4.21)	83(4.47)	72(5.65)	71(4.04)	59(4.21)	127(3.57)	61(4.23)	56(3.85)	16(5.17)	52(4.16)	67(3.10)
UKR	89(3.90)	134(2.96)	68(3.83)	132(3.20)	67(5.70)	46(4.61)	129(3.53)	54(4.54)	119(3.31)	83(3.37)	38(4.53)	100(3.48)	63(3.11)
BS-10	N. of countries 139	96(3.52)	70(3.82)	94(4.27)	67(5.70)	63(4.22)	98(3.85)	71(4.38)	99(3.78)	69(3.56)	57(3.93)	89(3.58)	92(2.91)
EU-27		39(4.65)	29(5.03)	49(4.88)	31(6.25)	25(5.09)	35(4.63)	54(4.55)	48(4.50)	29(4.83)	47(4.30)	29(4.64)	27(3.96)



Source: World Economic Forum

Table 5. GCI rank/pillar, EU 27 countries, 2010-2011, source: World Bank Ease of Doing Business Database

Number of countries139			Basic Requirements					Efficiency enhancers							Innovation and sophistication factors	
Countries	GCI Rank	Rank	Institutions	Infra-structure	Macro-economics	Health & Primary Education	Rank	Highe edu. & training	Goods market efficiency	Labor market efficiency	Financial market develop.	Techno-logical readines	Market size	Rank	Business sophi- stication	Innovation
AUSTRIA	18	15	15	20	24	17	19	16	19	32	23	18	33	13	6	20
BELGIUM	19	22	29	21	72	1	17	7	16	43	34	13	27	15	11	15
BULGARIA	71	72	114	80	42	58	65	67	82	58	91	48	63	95	95	92
CYPRUS	40	29	30	26	67	12	36	29	20	42	15	38	104	36	33	38
CZECH R.	36	44	72	39	48	43	28	24	35	33	48	32	42	30	34	27
DENMARK	9	7	5	13	16	20	9	3	13	5	18	6	52	9	7	10
ESTONIA	33	25	31	32	19	29	34	22	29	17	45	24	101	45	56	37
FINLAND	7	5	4	17	15	2	14	1	24	22	4	15	56	6	10	3
FRANCE	15	16	26	4	44	16	15	17	32	60	16	12	7	16	12	19
GERMANY	5	6	13	2	23	25	13	19	21	70	36	10	5	5	3	8
GREECE	83	67	84	42	123	40	59	42	94	125	93	46	39	73	74	79
HUNGARY	52	59	79	51	69	57	41	34	67	62	68	37	49	51	69	41
IRELAND	29	35	24	38	95	10	25	23	14	20	98	21	54	21	20	22
ITALY	48	46	92	31	76	26	45	47	68	118	101	43	9	32	23	50
LATVIA	70	61	75	55	84	55	63	35	72	52	86	51	95	77	80	77
LITHUANIA	47	52	60	43	71	52	49	25	73	48	89	33	77	48	49	51
LUXEMBOURG	20	10	9	19	9	27	20	41	3	37	6	2	89	19	18	16
MALTA	50	40	34	48	52	30	47	37	36	98	11	29	125	46	40	48
NETHERLANDS	8	9	12	7	25	8	8	10	8	23	26	3	19	8	5	13
POLAND	39	56	54	72	61	39	30	26	45	53	32	47	21	50	50	54
PORTUGAL	46	42	48	24	96	41	43	39	52	117	59	31	45	39	51	32
ROMANIA	67	77	81	92	78	63	54	54	76	76	81	58	43	91	93	87
SLOVAKIA	60	53	89	57	32	45	37	53	51	40	37	34	58	63	57	85
SLOVENIA	45	34	50	36	34	23	46	21	39	80	77	35	78	35	36	34
SPAIN	42	38	53	14	66	49	32	31	62	115	56	30	13	41	35	46
SWEDEN	2	4	2	10	14	18	5	2	5	18	13	1	34	3	2	5
U.K.	12	18	17	8	56	19	7	18	22	8	25	8	6	12	9	14
EU 27			39	29	49	31		25	35	54	48	29	47		29	27
BS 10			96	70	94	67		63	98	71	99	69	57		89	92

Ease of Doing Business (EDB) Index										
Table 6. EDB ranks for EU 27 (9 pillars), 2010/2011										
Economy (number of countries 183)	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
AUSTRIA	32	125	57	33	15	132	104	25	9	20
BELGIUM	25	31	41	177	46	16	70	44	21	8
BULGARIA	51	43	119	62	6	44	85	108	87	83
CYPRUS	37	26	75	66	72	93	32	19	104	22
CZECH REPUBLIC	63	130	76	47	46	93	128	62	78	32
DENMARK	6	27	10	30	15	28	13	5	30	5
ESTONIA	17	37	24	13	32	59	30	4	50	70
FINLAND	13	32	55	26	32	59	65	6	11	6
FRANCE	26	21	19	142	46	74	55	26	7	44
GERMANY	22	88	18	67	15	93	88	14	6	35
GREECE	109	149	51	153	89	154	74	84	88	49
HUNGARY	46	35	86	41	32	120	109	73	22	62
IRELAND	9	11	38	78	15	5	7	23	37	9
ITALY	80	68	92	95	89	59	128	59	157	30
LATVIA	24	53	79	57	6	59	59	16	14	80
LITHUANIA	23	87	59	7	46	93	44	31	17	39
LUXEMBOURG	45	77	42	129	116	120	15	32	1	45
MALTA	-	-	-	-	-	-	-	-	-	-
NETHERLANDS	30	71	105	46	46	109	27	13	29	11
POLAND	70	113	164	86	15	44	121	49	77	81
PORTUGAL	31	59	111	31	89	44	73	27	24	21
ROMANIA	56	44	84	92	15	44	151	47	54	102
SLOVAKIA	41	68	56	9	15	109	122	102	71	33
SLOVENIA	42	28	63	97	116	20	80	56	60	38
SPAIN	49	147	49	54	46	93	71	54	52	19
SWEDEN	14	39	20	15	72	28	39	7	52	18
U. K.	4	17	16	22	2	10	16	15	23	7

Source: World Bank Ease of Doing Business Database

Ease of Doing Business (EDB) Index										
Table 7. EDB ranks for BS10 (9 pillars), 2010/2011										
Economy (number of countries 183)	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
ARMENIA	48	22	78	5	46	93	159	82	63	54
AZERBAIJAN	54	15	160	10	46	20	103	177	27	88
BULGARIA	51	43	119	62	6	44	85	108	87	83
GEORGIA	12	8	7	2	15	20	61	35	41	105
GREECE	109	149	51	153	89	154	74	84	88	49
MOLDOVA	90	94	159	18	89	109	106	141	20	92
ROMANIA	56	44	84	92	15	44	151	47	54	102
RUSSIA	123	108	182	51	89	93	105	162	18	103
TURKEY	65	63	137	38	72	59	75	76	26	115
UKRAINE	145	118	179	164	32	109	181	139	43	150

Source: World Bank Ease of Doing Business Database

Table 3.6 Global Competitiveness Index (GCI), 2005-2006, scores/rank

Source: World Economic Forum

	GCI Score (Rank)	Public Institutions Index	Macroeconomic Environment Index	Technology Index
Austria	4,95 (21)	6,00	5,07	4,35
Belgium	4,63 (31)	5,38	4,76	4,18
Bulgaria	3,83 (58)	4,23	3,95	3,31
Cyprus	4,54 (34)	5,44	4,33	3,87
Czech Republic	4,42 (38)	4,63	4,31	4,31
Denmark	5,65 (4)	6,35	5,64	5,30
Estonia	4,95 (20)	5,51	4,73	4,62
Finland	5,94 (1)	6,19	5,52	6,02
France	4,78 (30)	5,72	4,90	4,26
Germany	5,10 (15)	6,04	4,81	4,78
Greece	4,26 (46)	4,77	4,16	3,85
Hungary	4,38 (39)	5,15	3,91	4,08
Ireland	4,86 (26)	5,93	5,38	4,07
Italy	4,21 (47)	4,70	4,26	3,68
Latvia	4,29 (44)	4,55	4,48	3,83
Lithuania	4,30 (43)	4,73	4,47	3,70
Luxembourg	4,90 (25)	6,08	5,30	4,11
Malta	4,54 (35)	5,23	4,09	4,29
Netherlands	5,21 (11)	5,83	5,26	4,88
Poland	4,00 (51)	4,14	4,09	3,77
Portugal	4,91 (22)	5,83	4,51	4,39
Romania	3,67 (67)	3,84	3,65	3,53
Slovak Republic	4,31 (41)	4,73	4,23	3,99
Slovenia	4,59 (32)	5,14	4,57	4,07
Spain	4,80 (29)	5,13	5,07	4,21
Sweden	5,65 (3)	5,82	5,24	5,78
United Kingdom	5,11 (13)	5,98	5,13	4,66

Best performer

Worst performer

Table 3.7 Global Competitiveness Index (GCI), 2004-2005, scores/rank

Source: World Economic Forum

	GCI Score (Rank)	Public Institutions Index	Macroeconomic Environment Index	Technology Index
Austria	5,20 (17)	5,99	5,11	4,85
Belgium	4,95 (25)	5,71	4,92	4,59
Bulgaria	3,98 (59)	4,36	3,77	3,82
Cyprus	4,56 (38)	5,18	4,14	4,36
Czech Republic	4,55 (40)	4,56	4,22	4,88
Denmark	5,66 (5)	6,59	5,36	5,34
Estonia	5,08 (20)	5,59	4,65	5,01
Finland	5,95 (1)	6,48	5,47	5,92
France	4,92 (27)	5,62	4,78	4,65
Germany	5,28 (13)	6,21	4,77	5,08
Greece	4,56 (37)	4,74	4,52	4,42
Hungary	4,56 (39)	5,07	3,95	4,66
Ireland	4,90 (30)	5,87	4,85	4,43
Italy	4,27 (47)	4,64	4,27	4,08
Latvia	4,43 (44)	4,55	4,27	4,46
Lithuania	4,57 (36)	4,75	4,46	4,51
Luxembourg	4,95 (26)	5,99	5,23	4,28
Malta	4,79 (32)	5,39	4,11	4,85
Netherlands	5,30 (12)	6,08	5,13	4,98
Poland	3,98 (60)	3,70	4,05	4,19
Portugal	4,96 (24)	5,69	4,42	4,78
Romania	3,86 (63)	3,94	3,50	4,13
Slovak Republic	4,43 (43)	4,64	3,98	4,67
Slovenia	4,75 (33)	5,28	4,26	4,71
Spain	5,00 (23)	5,16	4,99	4,86
Sweden	5,72 (3)	6,31	4,99	5,80
United Kingdom	5,30 (11)	6,23	5,11	4,92

Table 3.1 Global Competitiveness Index (GCI), 2010-2011, scores/ranks
Source: World Economic Forum

	GCI Score (Rank)	Subindexes														
		Basic requirements					Efficiency enhancers						Innovation and sophistication factors			
		Score (Rank)	Institutions	Infrastructure	Macroeconomy	Health and primary education	Score (Rank)	Higher education and training	Goods market efficiency	Labor market efficiency	Financial market sophistication	Technological readiness	Market size	Score (Rank)	Business sophistication	Innovation
Austria	5,09 (18)	5,67 (15)	5,42	5,56	5,30	6,41	4,93 (19)	5,38	5,00	4,75	4,74	5,09	4,59	4,97 (13)	5,46	4,48
Belgium	5,07 (19)	5,45 (22)	4,98	5,53	4,56	6,75	5,01 (17)	5,71	5,08	4,64	4,64	5,22	4,77	4,91 (15)	5,24	4,59
Bulgaria	4,13 (71)	4,43 (72)	3,29	3,57	5,00	5,85	4,07 (65)	4,14	4,00	4,51	3,95	4,01	3,79	3,22 (95)	3,52	2,91
Cyprus	4,50 (40)	5,28 (29)	4,91	5,10	4,60	6,50	4,46 (36)	4,91	4,97	4,64	5,01	4,40	2,82	4,07 (36)	4,47	3,66
Czech Republic	4,57 (36)	4,91 (44)	3,86	4,78	4,90	6,10	4,66 (28)	5,11	4,58	4,75	4,49	4,55	4,47	4,19 (30)	4,47	3,92
Denmark	5,32 (9)	5,86 (7)	5,84	5,69	5,56	6,36	5,20 (9)	5,84	5,10	5,47	4,94	5,62	4,25	5,15 (9)	5,41	4,89
Estonia	4,61 (33)	5,38 (25)	4,91	4,94	5,40	6,26	4,52 (34)	5,17	4,71	4,91	4,50	4,94	2,89	3,90 (45)	4,13	3,68
Finland	5,37 (7)	5,97 (5)	5,96	5,59	5,58	6,75	5,09 (14)	6,06	4,92	4,85	5,38	5,17	4,15	5,43 (6)	5,29	5,56
France	5,13 (15)	5,67 (16)	5,04	6,24	4,98	6,42	5,09 (15)	5,36	4,69	4,47	4,96	5,28	5,76	4,83 (16)	5,18	4,48
Germany	5,39 (5)	5,89 (6)	5,50	6,43	5,32	6,32	5,11 (13)	5,33	4,97	4,40	4,62	5,36	6,01	5,51 (5)	5,82	5,19
Greece	3,99 (83)	4,49 (67)	3,67	4,57	3,61	6,13	4,12 (59)	4,67	3,91	3,71	3,88	4,06	4,52	3,41 (73)	3,83	3,00
Hungary	4,33 (52)	4,65 (59)	3,76	4,36	4,59	5,87	4,38 (41)	4,81	4,16	4,46	4,16	4,41	4,27	3,71 (51)	3,87	3,55
Ireland	4,74 (29)	5,18 (35)	5,14	4,80	4,26	6,51	4,68 (25)	5,17	4,09	4,87	3,79	4,99	4,20	4,55 (21)	4,85	4,25
Italy	4,37 (48)	4,84 (46)	3,58	4,94	4,52	6,30	4,33 (45)	4,60	4,16	3,81	3,70	4,12	5,63	4,11 (32)	4,81	3,40
Latvia	4,14 (70)	4,60 (61)	3,79	4,26	4,47	5,88	4,08 (63)	4,81	4,13	4,58	3,98	3,96	3,04	3,37 (77)	3,73	3,02
Lithuania	4,38 (47)	4,77 (52)	3,99	4,56	4,56	5,95	4,28 (49)	5,07	4,12	4,61	3,95	4,51	3,45	3,79 (48)	4,21	3,38
Luxembourg	5,05 (20)	5,81 (10)	5,73	5,56	5,67	6,29	4,92 (20)	4,68	5,49	4,71	5,35	6,11	3,16	4,76 (19)	4,98	4,53
Malta	4,34 (50)	5,08 (40)	4,83	4,45	4,82	6,23	4,31 (47)	4,79	4,58	4,10	5,22	4,85	2,31	3,88 (46)	4,34	3,43
Netherlands	5,33 (8)	5,82 (9)	5,54	5,93	5,29	6,53	5,24 (8)	5,63	5,17	4,83	4,71	5,99	5,10	5,16 (8)	5,55	4,77
Poland	4,51 (39)	4,69 (56)	4,18	3,76	4,70	6,13	4,62 (30)	5,00	4,38	4,58	4,66	4,02	5,08	3,76 (50)	4,20	3,31
Portugal	4,38 (46)	5,01 (42)	4,37	5,30	4,26	6,13	4,36 (43)	4,76	4,32	3,85	4,26	4,63	4,34	3,98 (39)	4,19	3,77
Romania	4,16 (67)	4,36 (77)	3,74	3,44	4,50	5,77	4,18 (54)	4,47	4,08	4,32	4,01	3,82	4,41	3,24 (91)	3,55	2,94
Slovak Republic	4,25 (60)	4,77 (53)	3,60	4,19	5,20	6,07	4,43 (37)	4,49	4,34	4,66	4,61	4,48	3,97	3,54 (63)	4,12	2,95
Slovenia	4,42 (45)	5,18 (34)	4,37	4,83	5,19	6,33	4,33 (46)	5,27	4,52	4,26	4,02	4,45	3,45	4,08 (35)	4,42	3,73
Spain	4,49 (42)	5,13 (38)	4,25	5,67	4,60	6,01	4,56 (32)	4,85	4,20	3,88	4,28	4,64	5,47	3,96 (41)	4,46	3,47
Sweden	5,56 (2)	5,98 (4)	6,12	5,67	5,61	6,41	5,32 (5)	5,90	5,30	4,89	5,15	6,12	4,58	5,67 (3)	5,88	5,45
United Kingdom	5,25 (12)	5,58 (18)	5,28	5,88	4,76	6,40	5,28 (7)	5,34	4,96	5,29	4,73	5,58	5,80	4,98 (12)	5,32	4,65

Table 3.2 Global Competitiveness Index (GCI), 2009-2010, scores/ranks

Source: World Economic Forum

	GCI Score (Rank)	Subindexes														
		Basic requirements					Efficiency enhancers							Innovation and sophistication factors		
		Score (Rank)	Institutions	Infrastructure	Macroeconomy	Health and primary education	Score (Rank)	Higher education and training	Goods market efficiency	Labor market efficiency	Financial market sophistication	Technological readiness	Market size	Score (Rank)	Business sophistication	Innovation
Austria	5,13 (17)	5,70 (13)	5,55	5,89	5,22	6,14	4,98 (19)	5,19	5,14	4,71	4,85	5,39	4,62	5,00 (11)	5,54	4,46
Belgium	5,09 (18)	5,43 (20)	4,98	5,58	4,74	6,43	5,04 (18)	5,52	5,11	4,66	4,86	5,26	4,83	4,95 (13)	5,28	4,62
Bulgaria	4,02 (76)	4,13 (80)	3,19	2,88	4,93	5,54	4,08 (62)	4,11	4,02	4,51	4,09	3,82	3,94	3,29 (89)	3,68	2,90
Cyprus	4,57 (34)	5,43 (21)	5,03	5,22	5,15	6,32	4,45 (41)	4,81	4,87	4,62	5,00	4,50	4,50	4,18 (32)	4,67	3,68
Czech Republic	4,67 (31)	4,78 (45)	3,93	4,27	4,99	5,94	4,78 (24)	5,05	4,82	4,88	4,64	4,75	4,51	4,40 (26)	4,80	4,01
Denmark	5,46 (5)	5,98 (4)	6,08	5,83	5,71	6,31	5,37 (6)	5,90	5,21	5,53	5,31	5,92	4,32	5,28 (7)	5,51	5,04
Estonia	4,56 (35)	5,10 (34)	4,85	4,67	4,90	5,98	4,69 (27)	5,11	4,81	4,86	4,82	5,49	3,08	3,98 (42)	4,31	3,64
Finland	5,43 (6)	6,04 (1)	6,05	5,87	5,78	6,46	5,17 (12)	5,97	4,98	5,85	5,33	5,64	4,23	5,47 (6)	5,40	5,53
France	5,13 (16)	5,60 (15)	4,95	6,52	4,72	6,22	5,08 (16)	5,30	4,86	4,39	4,95	5,24	5,78	4,90 (15)	5,30	4,50
Germany	5,37 (7)	5,85 (8)	5,50	6,59	5,28	6,01	5,12 (14)	5,07	5,01	4,33	4,68	5,63	6,02	5,47 (5)	5,82	5,11
Greece	4,04 (71)	4,49 (56)	3,83	4,31	4,02	5,81	4,13 (57)	4,43	4,09	3,80	4,02	3,86	4,59	3,59 (66)	4,04	3,14
Hungary	4,22 (58)	4,48 (58)	3,77	4,04	4,50	5,59	4,38 (45)	4,63	4,22	4,43	4,20	4,44	4,35	3,67 (61)	3,89	3,45
Ireland	4,84 (25)	5,06 (37)	5,21	4,19	4,63	6,23	4,87 (22)	5,12	5,09	4,86	4,60	5,27	4,26	4,63 (20)	4,97	4,29
Italy	4,31 (48)	4,38 (67)	3,44	3,99	4,11	5,99	4,37 (46)	4,35	4,22	3,74	3,76	4,50	5,67	4,15 (34)	4,92	3,38
Latvia	4,06 (68)	4,45 (60)	3,91	4,04	4,20	5,66	4,21 (51)	4,66	4,29	4,70	4,32	4,00	3,27	3,36 (86)	3,79	2,94
Lithuania	4,30 (53)	4,68 (47)	4,00	4,44	4,72	5,57	4,33 (47)	4,76	4,26	4,64	4,16	4,54	3,63	3,75 (53)	4,22	3,28
Luxembourg	4,96 (21)	5,85 (7)	5,88	5,56	5,95	6,01	4,84 (23)	4,51	5,38	4,67	5,31	5,91	3,25	4,58 (22)	4,85	4,31
Malta	4,30 (52)	4,97 (41)	4,82	4,60	4,52	5,94	4,31 (48)	4,59	4,53	4,11	5,16	5,07	2,41	3,83 (48)	4,33	3,33
Netherlands	5,32 (10)	5,71 (12)	5,66	5,74	5,21	6,22	5,26 (10)	5,49	5,24	4,81	4,90	6,02	5,12	5,17 (9)	5,54	4,79
Poland	4,33 (46)	4,30 (71)	3,90	2,88	4,56	5,88	4,56 (31)	4,82	4,34	4,54	4,61	3,97	5,07	3,84 (46)	4,35	3,33
Portugal	4,40 (43)	5,05 (39)	4,49	5,23	4,52	5,95	4,40 (43)	4,58	4,39	4,04	4,26	4,73	4,40	3,98 (41)	4,28	3,69
Romania	4,11 (64)	4,10 (86)	3,68	2,67	4,55	5,50	4,25 (49)	4,30	4,24	4,29	4,40	3,79	4,49	3,44 (75)	3,79	3,10
Slovak Republic	4,31 (47)	4,61 (54)	3,74	3,89	5,14	5,68	4,55 (34)	4,37	4,67	4,78	4,82	4,61	4,05	3,71 (57)	4,29	3,12
Slovenia	4,55 (37)	5,18 (29)	4,47	4,84	5,32	6,10	4,49 (37)	5,16	4,60	4,48	4,49	4,67	3,56	4,23 (30)	4,64	3,83
Spain	4,59 (33)	5,06 (38)	4,38	5,36	4,68	5,82	4,66 (29)	4,69	4,45	4,08	4,47	4,77	5,52	4,14 (35)	4,74	3,55
Sweden	5,51 (4)	5,96 (5)	6,10	5,82	5,70	6,22	5,31 (7)	5,67	5,27	4,91	5,17	6,15	4,63	5,53 (4)	5,66	5,39
United Kingdom	5,19 (13)	5,29 (26)	5,07	5,43	4,60	6,07	5,31 (8)	5,17	4,97	5,22	4,87	5,79	5,82	4,92 (14)	5,24	4,60

Table 3.3 Global Competitiveness Index (GCI), 2008-2009, scores/ranks

Source: World Economic Forum

		Basic requirements					Efficiency enhancers							Innovation and sophistication factors		
	GCI Score (Rank)	Score (Rank)	Institutions	Infrastructure	Macroeconomy	Health and primary education	Score (rank)	Higher education and training	Goods market efficiency	Labor market efficiency	Financial market sophistication	Technological readiness	Market size	Score (Rank)	Business sophistication	Innovation
Austria	5,23 (14)	5,81 (9)	5,72	5,86	5,36	6,28	5,03(20)	5,28	5,38	4,65	5,01	5,34	4,56	5,16(12)	5,65	4,68
Belgium	5,14 (19)	5,60 (18)	5,15	5,62	5,14	6,50	5,02(21)	5,63	5,22	4,26	5,25	5,01	4,75	5,02(15)	5,36	4,69
Bulgaria	4,03 (76)	4,20 (82)	3,28	2,79	5,21	5,53	4,05(65)	4,09	4,11	4,42	4,18	3,65	3,83	3,30(92)	3,69	2,91
Cyprus	4,53 (40)	5,48 (23)	5,03	5,17	5,33	6,39	4,43(39)	4,68	4,88	4,44	5,11	4,35	3,12	4,05(41)	4,57	3,53
Czech Republic	4,62 (33)	4,85 (45)	3,87	4,11	5,37	6,07	4,67(28)	4,98	4,73	4,74	4,65	4,48	4,45	4,37(25)	4,77	3,98
Denmark	5,58 (3)	6,14 (4)	6,18	6,01	5,92	6,44	5,49(3)	5,98	5,39	5,60	5,82	5,87	4,27	5,37(7)	5,66	5,09
Estonia	4,67 (32)	5,27 (30)	4,85	4,44	5,72	6,08	4,73(26)	5,23	4,98	4,74	5,08	5,30	3,04	4,06(40)	4,38	3,74
Finland	5,50 (6)	6,18 (1)	6,18	5,94	6,01	6,57	5,21(13)	6,07	5,22	4,81	5,51	5,46	4,16	5,53(5)	5,49	5,57
France	5,22 (16)	5,76 (13)	5,10	6,54	5,04	6,35	5,09(16)	5,37	5,01	4,05	5,19	5,16	5,73	5,08(14)	5,50	4,67
Germany	5,46 (7)	5,96 (7)	5,65	6,65	5,42	6,10	5,22(11)	5,15	5,19	4,43	5,35	5,22	5,99	5,54(4)	5,87	5,22
Greece	4,11 (67)	4,66 (51)	4,10	4,28	4,37	5,89	4,16(57)	4,52	4,22	3,89	4,29	3,50	4,52	3,65(68)	4,13	3,18
Hungary	4,22 (62)	4,43 (64)	3,94	3,85	4,20	5,74	4,31(48)	4,51	4,20	4,23	4,42	4,21	4,28	3,75(55)	4,05	3,45
Ireland	4,99 (22)	5,24 (32)	5,39	3,95	5,33	6,28	5,05(19)	5,18	5,30	4,95	5,68	4,98	4,22	4,72(20)	5,05	4,39
Italy	4,35 (49)	4,53 (58)	3,68	3,94	4,46	6,04	4,38(42)	4,43	4,24	3,56	3,90	4,52	5,65	4,19(31)	4,99	3,38
Latvia	4,26 (54)	4,63 (55)	4,05	3,81	4,91	5,76	4,31(47)	4,67	4,46	4,71	4,80	4,00	3,24	3,39(84)	3,85	2,94
Lithuania	4,45 (44)	4,84 (46)	4,19	4,24	5,23	5,69	4,37(43)	4,85	4,52	4,52	4,50	4,29	3,51	3,87(49)	4,39	3,35
Luxembourg	4,85 (25)	5,78 (12)	5,68	5,38	6,03	6,03	4,69(27)	4,39	5,21	4,52	5,39	5,52	3,12	4,51(24)	4,87	4,15
Malta	4,31 (52)	5,08 (40)	4,88	4,46	4,97	6,02	4,35(44)	4,51	4,55	4,08	5,36	4,75	2,84	3,74(56)	4,23	3,25
Netherlands	5,41 (8)	5,81 (10)	5,76	5,71	5,45	6,30	5,38(7)	5,52	5,39	4,72	5,57	6,01	5,06	5,20(9)	5,58	4,82
Poland	4,28 (53)	4,39 (70)	3,63	2,77	5,25	5,90	4,39(41)	4,64	4,22	4,40	4,28	3,79	5,00	3,70(61)	4,23	3,17
Portugal	4,47 (43)	5,14 (37)	4,75	5,07	4,74	6,00	4,47(34)	4,59	4,53	4,18	4,71	4,51	4,32	4,03(43)	4,39	3,66
Romania	4,10 (68)	4,15 (87)	3,63	2,56	4,85	5,55	4,18(54)	4,29	4,18	4,10	4,42	3,70	4,38	3,53(75)	3,93	3,14
Slovak Republic	4,40 (46)	4,66 (52)	3,85	3,64	5,31	5,82	4,52(32)	4,43	4,71	4,67	5,04	4,35	3,94	3,80(53)	4,33	3,28
Slovenia	4,50 (42)	5,13 (38)	4,40	4,49	5,48	6,15	4,45(37)	5,15	4,49	4,41	4,67	4,53	3,44	4,15(33)	4,59	3,72
Spain	4,72 (29)	5,34 (27)	4,59	5,30	5,53	5,96	4,75(25)	4,75	4,63	4,11	4,93	4,59	5,47	4,25(29)	4,89	3,61
Sweden	5,53 (4)	5,99 (6)	6,05	5,71	5,88	6,35	5,35(9)	5,83	5,34	4,74	5,65	5,99	4,57	5,53(6)	5,64	5,42
United Kingdom	5,30 (12)	5,46 (24)	4,99	5,52	5,15	6,17	5,45(4)	5,27	5,05	5,19	5,81	5,62	5,77	4,93(17)	5,20	4,66

Table 3.4 Global Competitiveness Index (GCI), 2007-2008, scores/ranks, Source: World Economic Forum

	GCI Score (Rank)	Subindexes														
		Basic requirements					Efficiency enhancers							Innovation and sophistication factors		
		Score (Rank)	Institutions	Infrastructure	Macroeconomy	Health and primary education	Score (Rank)	Higher education and training	Goods market efficiency	Labor market efficiency	Financial market sophistication	Technological readiness	Market size	Score (Rank)	Business sophistication	Innovation
Austria	5,23 (15)	5,75 (10)	5,72	5,69	5,32	6,29	5,02 (21)	5,40	5,41	4,52	5,13	5,17	4,47	5,22 (11)	5,69	4,76
Belgium	5,10 (20)	5,48 (20)	5,06	5,65	4,90	6,31	4,96 (22)	5,57	5,20	4,10	5,37	4,82	4,68	5,09 (15)	5,44	4,74
Bulgaria	3,93 (79)	4,22 (76)	3,22	2,91	5,16	5,57	3,83 (72)	3,99	3,89	4,25	4,09	3,11	3,66	3,26 (91)	3,57	2,96
Cyprus	4,23 (55)	5,21 (31)	4,65	4,91	5,02	6,25	4,12 (53)	4,46	4,65	4,16	4,88	3,85	2,72	3,75 (55)	4,26	3,25
Czech Republic	4,58 (33)	4,85 (42)	3,84	4,22	5,26	6,06	4,54 (30)	4,85	4,65	4,64	4,60	4,12	4,38	4,33 (28)	4,71	3,95
Denmark	5,55 (3)	6,14 (1)	6,14	6,10	5,87	6,45	5,44 (4)	5,96	5,43	5,52	5,89	5,64	4,19	5,36 (8)	5,60	5,11
Estonia	4,74 (27)	5,25 (29)	4,74	4,38	5,85	6,06	4,66 (27)	5,18	4,95	4,76	5,10	5,07	2,89	4,07 (35)	4,39	3,75
Finland	5,49 (6)	6,11 (2)	6,16	5,84	5,87	6,58	5,19 (14)	6,01	5,35	4,75	5,58	5,36	4,08	5,56 (6)	5,46	5,67
France	5,18 (18)	5,70 (13)	5,09	6,46	4,93	6,31	5,04 (20)	5,38	5,03	4,06	5,20	4,88	5,66	5,08 (16)	5,47	4,69
Germany	5,51 (5)	5,82 (9)	5,83	6,65	4,93	5,88	5,28 (11)	5,33	5,29	4,45	5,64	5,05	5,90	5,70 (3)	5,93	5,46
Greece	4,08 (65)	4,70 (48)	4,31	4,38	4,29	5,83	4,07 (57)	4,44	4,24	3,69	4,41	3,29	4,33	3,68 (59)	4,13	3,23
Hungary	4,35 (47)	4,54 (55)	4,14	3,93	4,22	5,86	4,34 (40)	4,64	4,26	4,36	4,64	3,91	4,26	3,98 (43)	4,35	3,61
Ireland	5,03 (22)	5,31 (27)	5,25	4,03	5,69	6,28	5,05 (19)	5,26	5,41	4,87	5,91	4,65	4,17	4,80 (22)	5,07	4,54
Italy	4,36 (46)	4,55 (54)	3,77	3,91	4,46	6,08	4,38 (39)	4,55	4,32	3,50	3,96	4,37	5,61	4,18 (32)	4,91	3,45
Latvia	4,41 (45)	4,73 (47)	4,02	3,91	5,24	5,77	4,32 (42)	4,82	4,47	4,61	4,90	4,01	3,08	3,55 (72)	4,02	3,08
Lithuania	4,49 (38)	4,82 (43)	4,08	4,05	5,34	5,80	4,33 (41)	4,98	4,52	4,49	4,59	4,04	3,40	3,94 (44)	4,43	3,45
Luxembourg	4,88 (25)	5,67 (15)	5,50	5,37	5,80	5,99	4,75 (25)	4,40	5,23	4,56	5,85	5,38	3,09	4,57 (24)	4,96	4,18
Malta	4,21 (56)	4,92 (41)	4,78	4,11	4,90	5,89	4,12 (54)	4,44	4,51	3,96	5,40	4,25	2,16	3,70 (58)	4,15	3,24
Netherlands	5,40 (10)	5,90 (7)	5,73	5,84	5,73	6,31	5,31 (9)	5,57	5,37	4,71	5,63	5,65	4,95	5,21 (12)	5,54	4,88
Poland	4,28 (51)	4,41 (64)	3,65	3,03	5,01	5,96	4,30 (43)	4,62	4,12	4,44	4,32	3,44	4,88	3,66 (61)	4,04	3,28
Portugal	4,48 (40)	5,14 (35)	4,87	4,98	4,68	6,04	4,48 (33)	4,62	4,59	4,14	4,94	4,28	4,28	4,40 (38)	4,37	3,71
Romania	3,97 (74)	4,07 (88)	3,44	2,57	4,64	5,62	3,98 (62)	4,14	4,04	4,13	4,05	3,29	4,23	3,54 (73)	3,99	3,09
Slovak Republic	4,45 (41)	4,64 (50)	3,99	3,78	4,92	5,88	4,46 (34)	4,42	4,66	4,76	5,02	4,08	3,81	3,84 (52)	4,26	3,42
Slovenia	4,48 (39)	5,10 (37)	4,45	4,32	5,47	6,16	4,40 (38)	5,08	4,63	4,43	4,68	4,29	3,28	4,20 (30)	4,65	3,75
Spain	4,66 (29)	5,32 (26)	4,46	5,46	5,42	5,95	4,68 (26)	4,75	4,59	4,08	4,96	4,33	5,36	4,20 (31)	4,81	3,58
Sweden	5,54 (4)	5,94 (6)	5,86	5,71	5,76	6,44	5,34 (8)	5,98	5,37	4,61	5,73	5,87	4,47	5,62 (5)	5,70	5,53
United Kingdom	5,41 (9)	5,59 (16)	5,31	5,71	5,18	6,16	5,53 (2)	5,42	5,30	5,29	6,17	5,27	5,74	5,62 (5)	5,41	4,79

Table 3.5 Global Competitiveness Index (GCI), 2006-2007, scores/ranks, Source: World Economic Forum

	GCI Score (Rank)	Basic requirements					Efficiency enhancers						Innovation and sophistication factors			
		Score (Rank)	Institutions	Infrastructure	Macroeconomy	Health and primary education	Score (rank)	Higher education and training	Market efficiency			Technological readiness		Score (Rank)	Business sophistication	Innovation
Austria	5,32 (17)	5,58 (18)	5,45	5,43	4,91	6,52	5,16(20)	5,39	4,94			5,15		5,28(12)	5,91	4,65
Belgium	5,27 (20)	5,59 (17)	4,85	5,85	4,76	6,89	5,07(23)	5,83	4,69			4,68		5,21(14)	5,73	4,68
Bulgaria	3,96 (72)	4,50 (62)	3,07	3,41	4,92	6,61	3,67(70)	4,05	3,75			3,21		3,26(85)	3,59	2,93
Cyprus	4,36 (46)	5,03 (37)	4,52	4,47	4,33	6,79	4,27(44)	4,48	4,22			4,10		3,81(49)	4,32	3,30
Czech Republic	4,74 (29)	4,89 (42)	3,84	4,50	4,81	6,42	4,73(27)	5,04	4,43			4,74		4,47(27)	4,96	3,98
Denmark	5,70 (4)	6,15 (1)	5,98	6,24	5,44	6,94	5,59(6)	5,91	5,40			5,46		5,40(7)	5,76	5,04
Estonia	5,12 (25)	5,31 (30)	4,70	4,66	5,31	6,58	5,18(19)	5,26	4,98			5,29		4,24(32)	4,65	3,83
Finland	5,76 (2)	6,10 (3)	6,05	5,91	5,50	6,93	5,60(4)	6,23	5,13			5,44		5,65(6)	5,74	5,56
France	5,31 (18)	5,66 (15)	4,91	6,25	4,55	6,92	5,07(22)	5,57	4,83			4,81		5,28(13)	5,76	4,80
Germany	5,58 (8)	5,75 (9)	5,69	6,51	4,44	6,37	5,22(17)	5,42	5,09			5,16		5,89(3)	6,26	5,51
Greece	4,33 (47)	4,96 (40)	4,36	4,71	3,86	6,92	4,18(47)	4,78	4,17			3,58		3,89(45)	4,35	3,43
Hungary	4,52 (41)	4,64 (52)	4,18	4,05	3,94	6,39	4,57(32)	4,93	4,61			4,18		4,08(39)	4,34	3,82
Ireland	5,21 (21)	5,46 (23)	5,15	4,61	5,27	6,78	5,21(18)	5,52	5,22			4,89		4,96(19)	5,39	4,54
Italy	4,46 (42)	4,70 (48)	3,66	4,00	4,21	6,93	4,41(40)	4,77	4,02			4,43		4,29(31)	5,08	3,50
Latvia	4,57 (36)	4,90 (41)	4,07	4,33	4,93	6,27	4,48(36)	5,01	4,44			3,98		3,74(58)	4,28	3,19
Lithuania	4,53 (40)	4,80 (45)	3,86	4,14	4,82	6,37	4,44(38)	4,97	4,35			3,99		3,96(44)	4,56	3,35
Luxembourg	5,16 (22)	5,73 (10)	5,45	5,63	5,28	6,56	5,00(24)	4,42	5,11			5,47		4,81(23)	5,27	4,36
Malta	4,54 (39)	4,98 (39)	4,59	4,37	4,26	6,69	4,57(33)	4,36	4,35			5,00		3,79(53)	4,32	3,26
Netherlands	5,56 (9)	5,94 (8)	5,60	6,09	5,16	6,90	5,45(9)	5,67	5,23			5,45		5,35(11)	5,80	4,90
Poland	4,30 (48)	4,59 (57)	3,62	3,64	4,34	6,76	4,17(48)	4,79	4,16			3,56		3,80(51)	4,13	3,47
Portugal	4,60 (34)	5,22 (34)	4,83	4,93	4,23	6,88	4,47(37)	4,63	4,61			4,18		4,14(37)	4,47	3,81
Romania	4,02 (68)	4,19 (83)	3,40	3,05	3,94	6,38	3,99(55)	4,34	4,03			3,59		3,52(73)	3,89	3,14
Slovak Republic	4,55 (37)	4,70 (47)	4,03	4,08	4,37	6,31	4,56(34)	4,52	4,66			4,50		3,96(43)	4,41	3,51
Slovenia	4,64 (33)	5,17 (36)	4,27	4,51	5,08	6,83	4,58(30)	5,07	4,17			4,51		4,18(34)	4,64	3,71
Spain	4,77 (28)	5,42 (25)	4,37	5,22	5,13	6,94	4,62(28)	4,86	4,63			4,38		4,34(30)	5,00	3,68
Sweden	5,74 (3)	5,95 (7)	5,51	5,97	5,40	6,93	5,65(2)	5,85	5,11			6,01		5,66(5)	5,87	5,44
United Kingdom	5,54 (10)	5,67 (14)	5,38	5,74	4,67	6,89	5,59(7)	5,57	5,63			5,56		5,36(10)	5,82	4,89