

# The Globalization Challenge for Europe

## *Russia – Integration, Isolation, or Stagnation*

- **Is Russia Europe?**
  - **Borders 14 countries**
  - **11 time zones; 3 in Europe**
  - **2 Capitals in Europe**
  - **Kaliningrad**
  - **Most of the population in Europe**

# **Russia – Integration, Isolation, or Stagnation**

**The eagle looks both ways**



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## Russia - Economy

- **Economy has been growing 6-7%**
  - **May slow to 4-5% for 2005**
- **Russia paid back complete IMF debt**
  - **\$3.33 billion**
- **Foreign debt has declined from 90% to 28% of GDP since 1998**

# Russia - Economy

- **The 1998 crash & competitiveness**
- **Inflation forecasted at <10% for 2005**
- **Current account & reserves at all time high**
- **Federal budget at surplus for 5<sup>th</sup> year**

# Russia – Economy

- **Tax & fiscal structure more transparent & improving for domestic as well as international firms**
- **Currency stable for the last several years**
  - **Salaries & Prices (Big ticket items) - previously stated in \$ now moving towards Euros or mix**

## Russia - Corruption

- **Transparency International rates Russia's transparency a 2.8 out of 10 because of corruption**
- **Hidden taxes still exist**
- **“Predatory Officials”**
- **Prime Minister Fradkov increasing FSB budget by 25% to monitor foreign firms**

## Russia - FDI

- **Russia is limiting purchases of natural resources by foreign firms**
  - **50% in some cases**
  - **25% in some cases**
  - **Only Russian firms in other cases**
- **Rules for natural resources do not apply to other industries**
- **Rules for Greenfield differ from buyouts**

## Russia - FDI

- **Accumulated FDI stock 6.5% of GDP**
  - 1/5 the average of other European transitional economies
- **FDI has been accelerating into Russia**
  - Regions being discovered
  - But, 70% of all FDI still into the Central (Moscow) & Northwest (St. Petersburg) regions
  - Sources of FDI are difficult to understand
    - Cyprus & Switzerland



## **Russia – FDI: External**

- **Lukoil's ownership of Getty is just the start**
- **Expect to see Russia buying more assets abroad**
- **Using resources to influence former Soviet republics & satellite countries**

# Russia – Internal Threats or Justice?



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# Russia – Internal Threats or Justice?

- **Mikhail Khodorkovsky bought Yukos for \$168-302 million at a closed auction**
  - He was the second highest bidder
  - Acquired 2% of the world's oil reserve
- **Smolensky, colleague of Berezovsky, laundered \$10 billion to New York banks**
- **Deripaska, owner of 70% of Russia's aluminum industry, is trying to adhere to Western accounting standards**

# **Russia – Internal Threats or Justice?**

- **How did the oligarchs acquire so much of Russia's natural resources?**
- **Same way as many oligarchs did in other FSU countries**
- **Ukraine is reexamining privatization of firms & industries**

# **Russia – Integration, Isolation, or Stagnation**

- **Russia and the Ukraine**
  - **Ukraine wants to join NATO**
  - **Major loss for Putin (Yanukovich)**
  - **Nemstov advisor to Yushchenko**
  
- **Russia and Europe**
  - **Equal partner on Europe's terms**
  - **Thank for the oil & gas**
  - **Disagreement over Ukraine**

# **Russia – Integration, Isolation, or Stagnation**

- **Russia & China**
  - **Exchange of technology & labor**
  - **China lent Rosneft \$6 billion to buy Yuganskneftgaz**
  - **Chinese construction company rumored to be building road between Moscow & St. Petersburg**
  - **Joint military exercises**
  - **Common Central Asian concerns**
  - **Some contention over who will influence Central Asia - resources**

# **Russia – Integration, Isolation, or Stagnation**

- **Russia & CIS**

- **Belarus**

- **Eventual integration**

- **Kazakhstan, Caucasus & Central Asia**

- **Concern over treatment of ethnic Russians**
    - **Resources**
    - **Terrorism**

# Russia – Integration, Isolation, or Stagnation

- **Russia & India**
  - Long existing relationship
  - Tea, technology, & arms
  
- **Russia & the US**
  - **Contentious courtship**
    - Democratic reform & fighting terrorism
  - **Loose nukes**
  - **Trade**
  - **WTO: if China why not us?**



# **Russia – Integration, Isolation, or Stagnation**



**THANK YOU – Спасибо!**