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
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 5th 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?
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 Yuganskneftagaz
  – 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!