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STATE UNIVERSITY
OF ECONOMICS

Russia's Development Prospects: An Optimistic Assessment

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Short bio

- 1996 graduated from St.Petersburg State University of Economics and Finance. In 2004 I came back to teach students.
- 2004 - research fellow at CEMAT, Helsinki, Finland
- 2006 – appointed to help students with internships
- 2007 – dissertation (PhD thesis) in management
- 2011 – research fellow at KIER, Kyoto, Japan
- 2015 - overseas visiting researcher at the Economic Research Institute for Northeast Asia (ERINA), Niigata, Japan
- 2014-2015 – Textbook for students and entrepreneurs
- 2016 – Research monograph
- 2017 – granted by Potanin Fund to develop master's program for managers
- 2017 - appointed to provide students with extra-curricular activities (enterprises visits, guest lectures, project activity, cultural program in St.Petersburg)



I'm happy to meet you!

Let's make short self-presentation from your side:

- Your name please.
- Where do you come from?
- What do you study during this semester?
- What would you like to know about Russia?



Main points of the lecture

- Factors influencing Russia's development
- GDP and inflation
- Industrial development
- Investments and digitalization
- Social improvements
- Conclusions



“Western observers often fail to “get Russia right” and there is a persistent sense of surprise as expectations are confounded”*. Russia keeps the foreigners guessing about what will happen next in political and economic sphere.

* A. Monaghan. The new politics of Russia. Manchester University Press, 2016 p.3.

pre-conditions:

- Global demand on all kinds of resources which my country possesses; stable internal demand
- Dramatic changes on oil & gas world markets
- Mentality (rooted in the Orthodox Christianity)
- Northern climate conditions on the biggest part of the territory
- Encourage from the state to keep business working due to safety and security reasons
- Infrastructure for business created during last 30 years and the soviet heritage
- Path dependence
- High society's expectations and, in the same time, modest needs of our middle class. People agree with the present life-quality level, especially in cities



Russian GDP up to 2016

13.1. PRODUCTION OF GROSS DOMESTIC PRODUCT ¹⁾

(at current prices; bln. roubles)

	2000	2005	2010	2012	2013	2014	2015	2016
Output at basic prices	12552	37021	82055	112517	121574	133110	144740	152325
Intermediate consumption	6080	18503	42015	54758	59822	64203	69976	74817
Gross value added at basic prices	6472	18518	40040	57759	61752	68908	74764	77508
Net taxes on products	833	3092	6269	9168	9264	10292	8469	8535
Gross domestic product at market prices	7306	21610	46309	66927	71017	79200	83233	86044

Sources of GDP

13.2. OUTPUT STRUCTURE BY ECONOMIC ACTIVITY

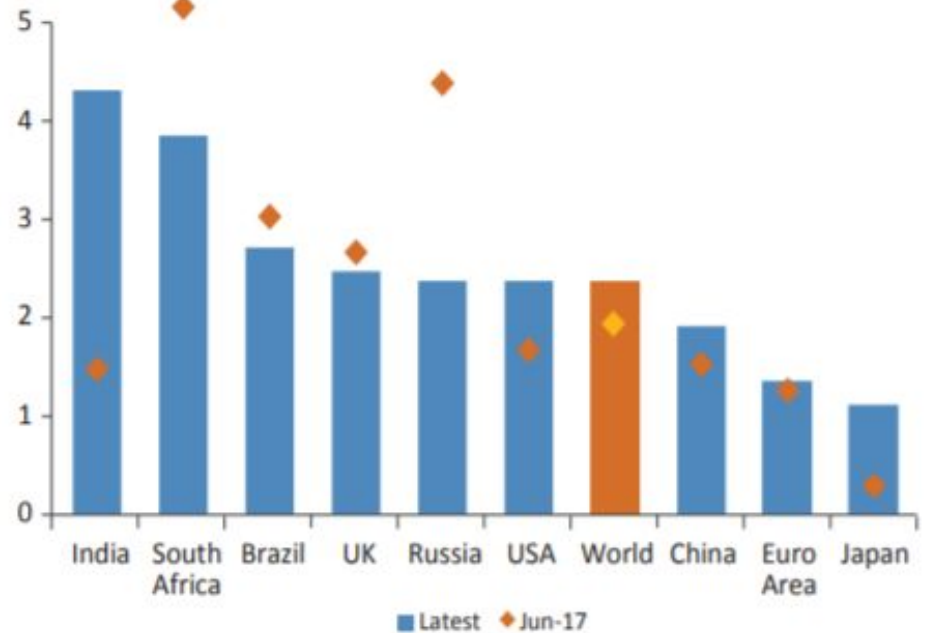
(at current basic prices; percent of total)

	2012	2013	2014	2015	2016
Output at basic prices	100	100	100	100	100
of which					
by economic activity :					
agriculture, hunting					
and forestry	3.4	3.5	3.7	4.1	4.3
fishing	0.2	0.2	0.2	0.3	0.3
mining and quarrying	7.4	7.3	7.2	7.5	7.3
manufacturing	24.4	24.6	24.6	25.1	25.2
electricity, gas and					
water supply	5.2	5.3	5.3	5.0	5.2
construction	7.9	7.4	7.0	6.9	6.6
wholesale and retail trade;					
repair of motor vehicles,					
motorcycles and personal					
and household goods	13.9	13.7	13.9	14.1	13.6

The table continues – see
“Russia in Figures 2017”

Inflation

Figure 2: Inflation in selected economies
(percent, year-on-year)



Source: Global Monthly, World Bank.

Our industrial policy

Russia introduced its first industrial policy law on December 31, 2014 (Federal Law No. 488), building on lessons learned from other countries and Russian business expectations. It governs:

- manufacturing,
- industrial parks,
- industrial clusters,
- engineering centers

Table IV.8.

Examples of sector-specific investment screening mechanisms in manufacturing

Country	Sectors covered (not exhaustive)	Stated screening criteria	Statutory act
India	Brownfield projects in pharmaceuticals	-	Foreign Exchange Management Regulations 2017
Japan	Aviation and space industry Nuclear industry Pharmaceuticals Fur and leather industry	Significant adverse effects on the smooth management of the economy	Foreign Exchange and Foreign Trade Act
Lithuania	High-technology activities	National security interests	Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises of Importance to Ensuring National Security
Russian Federation	Aviation and space industry Nuclear-related sectors	-	Federal Law N57-FZ, "Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defense and State Security"
United Kingdom	Manufacturing undertakings with special importance to national interests	-	Industry Act 1975

Source: UNCTAD.

International Comparison of Industrial Policies



Tools to imply the industrial policy

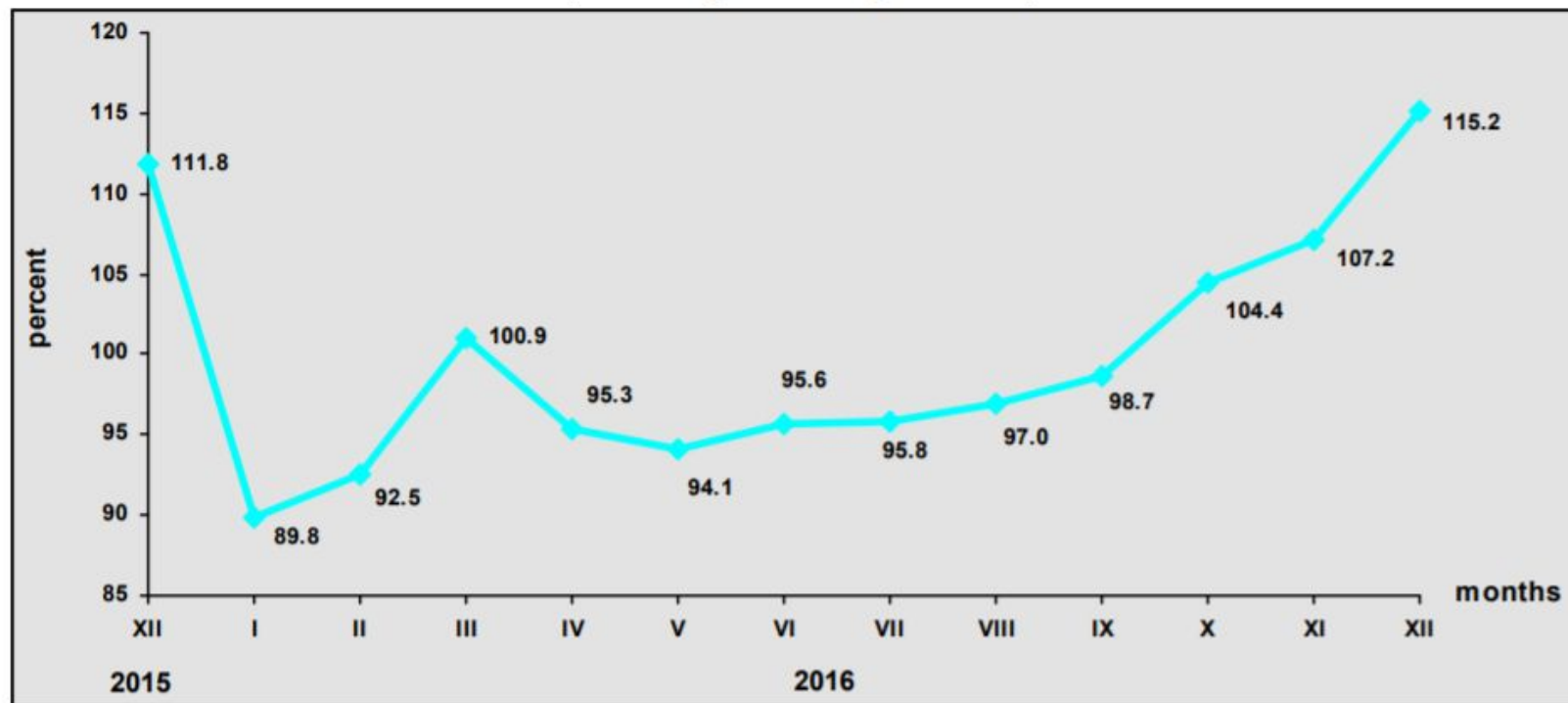
- an industrial information system
- state funds for industrial development.

The government is now empowered to issue special investment contracts to private businesses.



Industrial Production Index *

(to average monthly of 2013)



* Aggregate industrial production index by economic activity «Mining and quarrying», «Manufacturing», «Electricity, gas and water supply».



	Index of industrial production (2010=100)
2017	
January	105,8
February	102,3
March	116,6
April	111,7
May	113,7
June	115,2
July	112,9
August	117,3
September	120,9
October	125,9
November	127,3
December	136,7

	Index of industrial production (2010=100)
2018	
January	108,3
February	105,6
March	119,8
April	116,1
May	117,9
June	117,7
July	117,3
August	120,4
September	
October	
November	
December	

Investments

The share of investments (excluding small enterprises) at own expenses amounted to 51.8 %, attracted funds – 48.2 %, of which 9.0 % – from the federal budget, funds of individuals and legal entities attracted by developer organizations shared construction – 2.8 %.

In 2017, the Russian Federation required prior Government approval for foreign investment in certain transactions involving assets of strategic importance for national defence and state security.



Security issues

- State-owned enterprises are prohibited from gaining majority interests in businesses entities of strategic importance for national defence and state security, and governmental approval is mandatory for minority stakes.

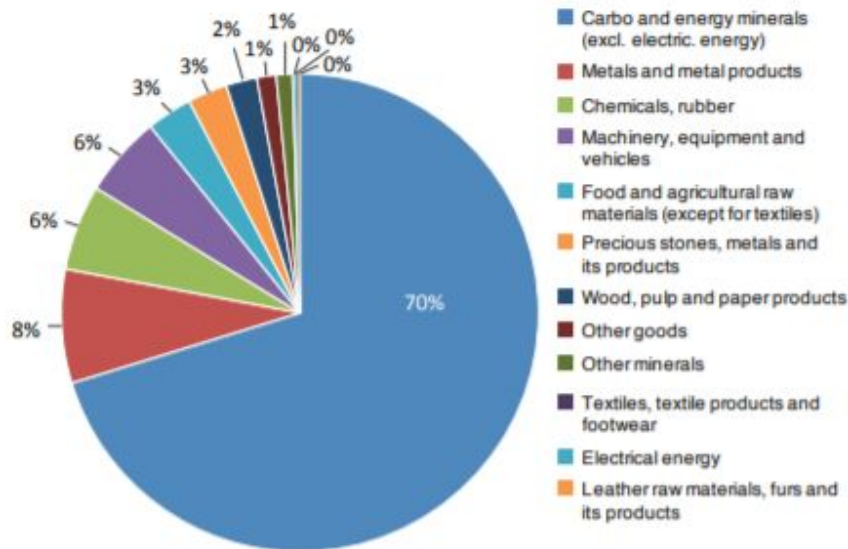
World Investment Report 2018

- *Peace through strength* attitude is still on agenda of Russian policy-makers (see S.Rosefielde's "Kremlin Strikes Back").

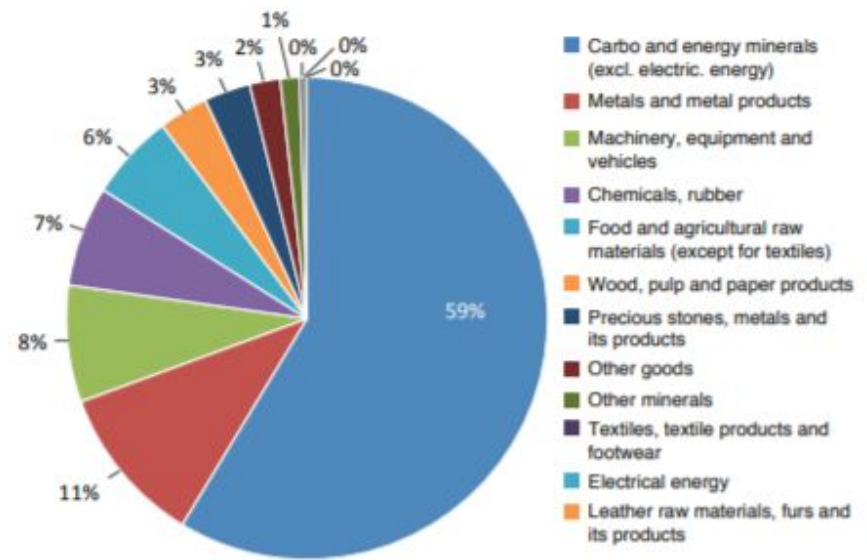


the Dutch disease weakens

Structure of exports in 2013



Structure of exports in 2017



Source: Federal Customs Service of Russia.

Digitalization (1/2)

“The national focus on digital transformation in Russia ... has caused a rapid rise in the numbers of online users and the participation of the population in the digital economy. This is particularly visible in large cities, less so in rural areas... More and more households enjoy broadband connectivity, including on mobile devices. Expert assessments point to a growing confidence of the Russian population in digital government, digital participation, the sharing economy and the use of payment cards”. *Russian Economic Report, May 2018*

Digitalization (2/2)

In July 2017, Russia adopted the Russia Digital Economy Program with an expected annual budget of USD 1.8 billion until 2025 ...

Focus on the digital transformation of the traditional economy, not just the ICT sector.

Russian Economic Report, May 2018

Digital-economy jobs

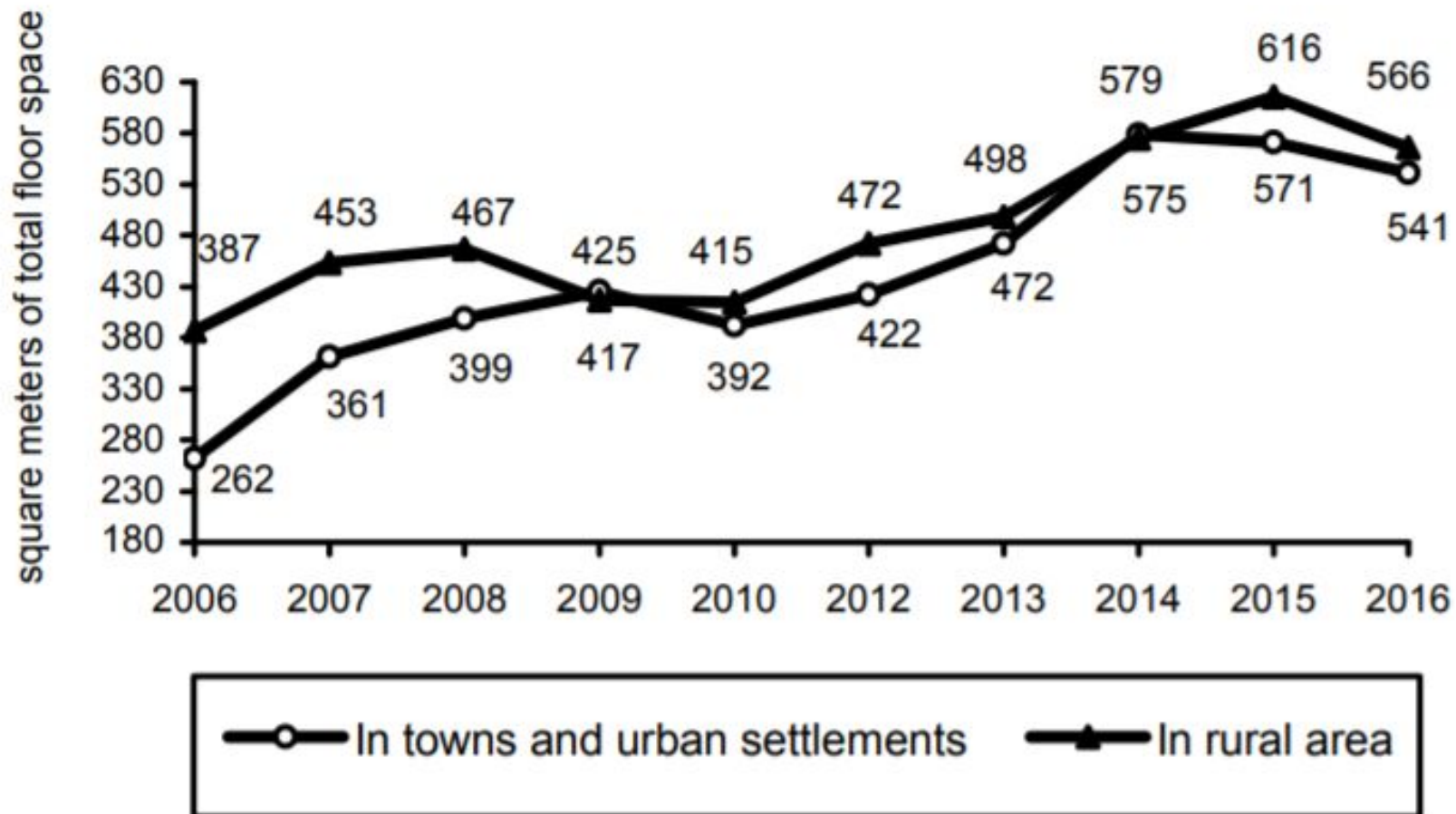
McKinsey estimates that by 2025, the economic impact of digital transformation in Russia will reach an impressive 19-to-34 percent of GDP. The World Bank indicates that by 2025, digital transformation may lead to the creation of between 7 and 13 million new digital-economy jobs in the country, and potential productivity gains of over USD 38 billion.

Russian Economic Report, May 2018

Agriculture

- Current statistical survey 2017: “According to estimates, the volume of agricultural production of all producers (agricultural enterprises, peasant (farm) enterprises and individual entrepreneurs, household farms) in 2016 (in accordance with provisional data) at actual prices amounted to 5626.0 billion roubles or 104.8 % by comparative assessment of the corresponding period of 2015. Gross harvest of grain in the Russian Federation in 2016 made 120.7 million ton (weight after processing), which was 15.9 million ton (by 15.2 %) above the level of the previous year”.

18.11. DWELLINGS PUT IN PLACE per 1000 population



The pension system reform

- New retirement age for women will be raised to 60 from the current 55. For men, the age is rising from 60 to 65. The changes are supposed to be raised by one year every year over the course of the next five years.
- It's an important source of the labor force, as well as a contribution into the sustainable social development

5. POPULATION

5.6. MARRIAGES AND DIVORCES

Years	Number of marriages	Number of divorces	Per 1000 of population	
			marriages	divorces
1992	1053717	639248	7.1	4.3
2000	897327	627703	6.2	4.3
2005	1066366	604942	7.4	4.2
2010	1215066	639321	8.5	4.5
2012	1213598	644101	8.5	4.5
2013	1225501	667971	8.5	4.7
2014	1225985	693730	8.4	4.7
2015	1161068	611646	7.9	4.2
2016	985836	607591	6.7	4.1

Integration perspective

- Integration and globalization are important factors of the world and national economic systems. EU enlargement and integration of Europe and Asia determine the current economic situation on Eurasia continent.
- Our opinion is that the current situation gives many chances to Russian economy and society to pursue own strategy and play a leading role in the Eurasian economic integration



Cooperation with UNC

- My university teaches more than 14000 students in Economics, Management and related fields. Many international students
- Student exchange
- International research and project teams
- Academic exchange



Conclusions

- Russian industrial development has made great inclusive strides during the new millennium and appears poised to build further on its past accomplishments.
- Agriculture enjoys import-substitution
- Social capital of Russia is growing



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