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**Evaluation of the competitiveness and
the business environment of Russia**

Master Thesis

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2013

MA in Politics and Economics of Contemporary Eastern and South-Eastern Europe

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Abstract

This dissertation refers to the competitiveness and the business environment in Russia and in the Black Sea region. In order to evaluate these two entities, two widespread indexes are used: the Global Competitiveness Index, established by the World Economic Forum, and the Ease of Doing Business index, developed by the World Bank. The main deduction which comes from this work is that despite the undoubted progress that has been made in the region during the last years, enough distance remains to be covered by the states of this area so as to get closer to the standards of the more sophisticated economies of Europe, North America, and Asia-Pacific. Especially Russia needs to focus carefully on the most problematic facets of her economic environment and try to obtain a functional and effective institutional framework, as well as simplify the economic processes, thus lowering their cost and their duration.

1. Introduction

The collapse of the communist world in 1989 was a milestone not only for the history of the 20th century, but moreover, for the route of the human genre. From this radical change sprang a new world which was fundamentally different from the previous status quo. More or less all the countries of the planet welcomed this transition and tried to adapt to the new circumstances. The ex-communist countries immediately started to climb up the steep and slippery road toward political and economic liberalism. They struggled with it in the beginning, perhaps they even backslid for a while -at least some of them-, but soon a brighter future was visible. Free market economy has been prevalent almost everywhere, with few exceptions counted on the fingers of one hand. The global market has integrated the world and has belittled the role of the borders. In this recently shaped global arena, every state is a player who can fight on equal terms with the other states for a better share of the global wealth. It should be also mentioned that this process is not a zero-sum game, the global competition creates new wealth which at the end of the day benefits all of us.

From the aforementioned situation it can easily be conceived that a new scientific need was born. A need to evaluate the efficiency of a state's economy and its capacity to compete with the other economies. Naturally, there are numerous elements which determine the performance of an economy. As a result, it is quite difficult to find all of them, group them, and study the correlation between them, with the aim to obtain an holistic view of an economy's function. This is the reason why different kinds of macroeconomic indexes were developed, each one of them focusing on separate aspects and characteristics of an economy. The most commonly used indexes are: the Global Competitiveness Index (GCI) established by the World Economic Forum (WEF), which evaluates the competitiveness of an economy, the Ease of Doing Business (EDB) index developed by the World Bank (WB), which measures the efficiency of the business environment in a country, the Index of Economic Freedom (IEF) created by The Wall Street Journal and The Heritage Foundation, which estimates how free an economy is, and the Corruption Perception Index (CPI) annually published by Transparency International, which deals with the levels of corruption perceived in a state.

The scope of this dissertation lies in the analysis of the first two indexes in the geographical framework of the Black Sea region (BS-10)¹ and especially in Russia. The competitiveness and the business environment in Russia are thoroughly examined through the study of the pillars which compose the indexes; a look is also cast at the historical trajectory of the indexes. The study of the competitiveness and of the business environment is of vital importance for a country, since it reveals with details what are the exact strong and weak points of the economy. Consequently, the analysis enables the policy makers to focus on the appropriate measures needed to be taken in order to ameliorate the economic status of the country and the well-being of its citizens.

The structure of the dissertation is as follows: In the next chapter the methodological issues are analyzed. The most important attributes of the GCI and the EDB index are presented with details, the pillars and the indicators of each index are listed, and the elaboration of the initial information is described. Various figures derived from the Global Competitiveness Report 2013 and the Doing Business Report 2013 are used to illustrate in a better way the essence of the indexes. In chapter 3, data related to the GCI are given in various forms and in a number of tables. Afterwards, regional analysis for the BS-10 states and country analysis for Russia in specific follow. Chapter 4 is similar to chapter 3, with the only difference being that instead of the GCI data, EDB data are demonstrated. Again regional and country analysis are included. Chapter 5 deals with the structural problems which plague the Russian economy, while chapter 6 comprises policy recommendations, which -if followed- will enhance the economic environment in Russia. Finally, the last chapter contains the main conclusions drawn by the implementation of the dissertation.

2. Methodology

In this chapter, the methodologies which will be used to evaluate the competitiveness and the business environment are extensively elaborated. In the former case, GCI will be used and the data are provided from the Global Competitiveness Report 2013 and its older editions. In the latter case, EDB index will be used and the data come from the Doing Business Report 2013 and its previous versions.

It is worth referring that the two indexes are not completely irrelevant and do not examine separate and clearly distinguished entities. On the contrary, they deal with contiguous aspects of an economy. Effectively, the same issues are approached from different points of view or seen through different lens. An appropriate example supporting this argument is the comparison of the 8th pillar of the GCI (financial market development) with the 5th indicator of the EDB index (ease of getting credit). The former explores the general features of the financial system, whereas the latter measures the number of procedures, the time, and the cost a company needs to spare so as to get credit, thus focusing mainly on the bureaucratic dimension of the lending institutes. Apparently there is a clear distinction, however, it is also true that some components are common, such as the easy access to credit. The high correlation of the GCI with the EDB ranking is displayed in Figure 1.

¹ The Black Sea region consists of the following 10 countries: Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine.

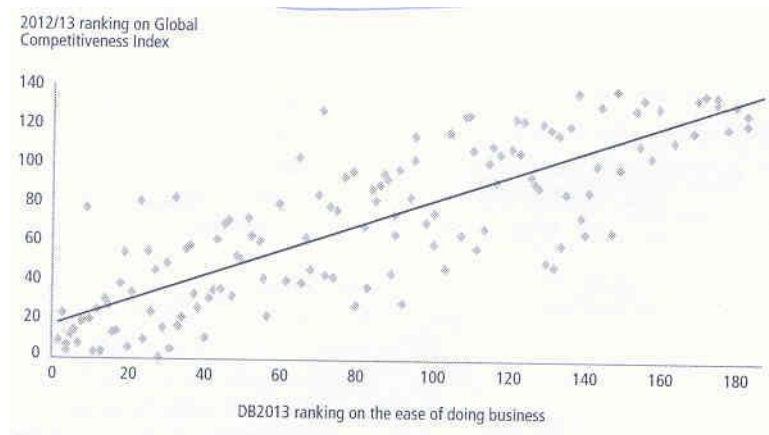


Figure 1. A strong correlation between GCI ranking and EDB ranking (WB 2013a, p.20).

2.1 Global Competitiveness Index

The competitiveness of a country is defined "as the set of institutions, policies, and factors that determine the level of productivity of a country". The level of productivity "sets the level of prosperity that can be earned by an economy". It also "determines the rates of return obtained by investments in an economy". In general, a competitive economy is able to sustain growth (WEF 2013a, p. 4).

The WEF, since the beginning of its function in 1971, tried to highlight the factors that influence the competitiveness of a country and promote the strategies which enable the countries overcome their problems and improve their competitiveness. For more than 40 years the annual Global Competitiveness Reports have tried to enlighten all stakeholders on matters related to national competitiveness.

But it was not before 2005 when the GCI was introduced². The GCI constitutes a comprehensive and effective tool which measures the microeconomic and the macroeconomic parameters of the competitiveness of a national economy (WEF 2013a, p. 4). It also offers all the advantages of arithmetic tools. First of all, the comparison of the competitiveness of different countries becomes possible. Furthermore, the contribution of each factor of an economy to its competitiveness is given with details. The index can be considered precise, because it combines the use of rough data with private sector opinion. Thus, the policy-makers can easily identify the problematic regions of a country and focus on appropriate measures to improve the economy's performance.

On the other hand, as it usually happens, whenever we try to measure abstract entities there is the possibility that we fail to grasp every aspect of the nature of the particular entity. The case gets even more complex if we take into consideration the way the WEF draws its data (WEF 2013a, p. 11, 83-85). The first source is international organizations and national institutions, such as the WB, the International Monetary Fund (IMF), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO); whereas the second source is the annual Executive Opinion Survey (Survey). The Survey consists of the answers of approximately 100 respondents per country on various issues. Most questions of the Survey ask the respondents to evaluate on a 1 to 7 scale one particular characteristic of the national economy. According to this scale, 1 stands for the worst possible situation and 7 for the best. One might introduce into the discussion the

² A premature form of the index was initially developed in 2001.

hypothesis of subjectivity, regarding the answers of the respondents. In fact, the argument of inherent subjectivity of the index is quite often raised by politicians in many places in the world³. Especially as far as Russia is concerned, there are many voices -coming even from abroad sometimes⁴- which attribute the traditionally poor performance of the country to a strict evaluation by the WEF. If this allegation is to be accepted, one can easily suspect political motives behind it.

This year's edition has trivial differences with the previous year's one. It covers 148 countries, four more than in the 2012-13 edition, an indicator has been omitted, and two other indicators have been replaced (WEF 2013a, p. 12).

The pillars of the GCI

The GCI is a weighted average of various different components, which can be grouped into 12 pillars. The pillars in their turn can be divided into three groups: the basic requirements sub-index pillars, the efficiency enhancers sub-index pillars, and the innovation and sophistication factors sub-index pillars (Figure 2). It is worth pointing out that the 12 pillars are not independent with each other, in fact they are closely interrelated (WEF 2013a, p. 4-9). A weakness in one of them has direct negative effects to the others, for example poor higher education and training render innovation almost impossible.

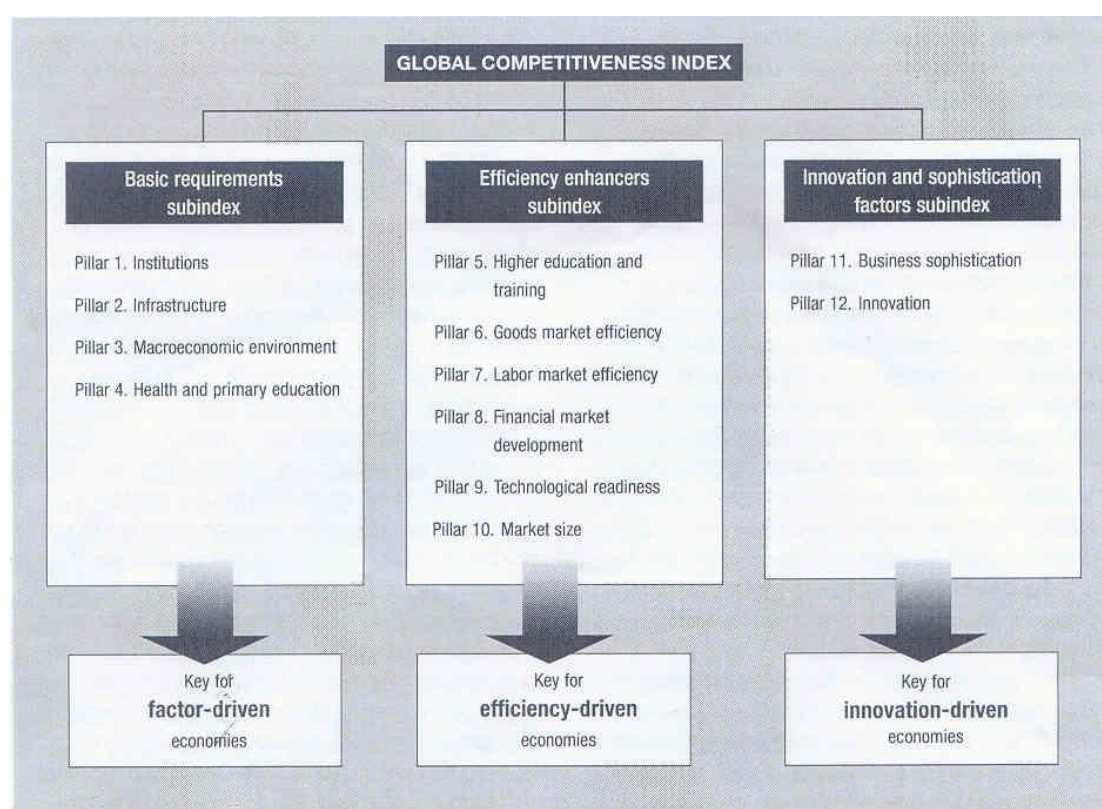


Figure 2. The Global Competitiveness Index framework (WEF 2013a, p. 9).

³ The most recent case was the position of the Trade and Industry Minister of South Africa: <http://www.bdlive.co.za/business/2013/07/01/davies-questions-index-that-ranks-sas-competitiveness-low>

⁴ <http://www.forbes.com/sites/markadomanis/2011/09/09/is-russia-competitive-reacting-to-the-world-economic-forums-global-competitiveness-report/3/>

- First pillar: Institutions. The institutional environment is determined not only from the legal framework, but also from the general governmental stance toward markets and economic freedom. Consequently, of equal importance is the level of existence of rampant bureaucracy, overregulation, corruption, and political dependence of the judicial system.
- Second pillar: Infrastructure. Well developed networks of transport, electricity, and telecommunications integrate the national market and connect it with other countries and regions.
- Third pillar: Macroeconomic environment. Although macroeconomic stability alone can not increase the productivity of a nation, it should be underlined that macroeconomic instability can be extremely harmful for the economy.
- Fourth pillar: Health and primary education. A healthy workforce is an asset for a country's productivity, since poor health can lead to significant costs to business. As far as primary education is concerned, it increases the efficiency of each individual worker.
- Fifth pillar: Higher education and training. An important pillar for these economies which want to go beyond the level of simple production processes. This pillar is affected by the secondary and the tertiary enrollment rates, the quality of education according to the business community evaluation, and the extent of vocational and continuous on-the-job training.
- Sixth pillar: Goods market efficiency. An efficient goods market produces the right mix of products and services depending on the needs of the national economy. Healthy competition and the lack of governmental impediments to business activity are very essential.
- Seventh pillar: Labor market efficiency. The efficient allocation of the workers in an economy, along with the existence of motives to be as productive as possible, contribute to the competitiveness of a country. Meritocracy and equality between men and women are crucial.
- Eighth pillar: Financial market development. A healthy financial sector allocates efficiently an economy's resources. The importance of the function of the financial market was demonstrated during the recent economic crisis.
- Ninth pillar: Technological readiness. In our era the information and communication technologies (ICT) are getting more and more significant for the general function of an economy. Consequently, the ability of an economy to keep pace with the technological development is an important parameter of its competitiveness.
- Tenth pillar: Market size. Large markets take advantage of the economies of scale. In spite of the fact that globalization tends to abolish national borders, there are still many barriers even inside entities such as the European Union (EU). As a result, the size of a national market continues to play a substantial role.
- Eleventh pillar: Business sophistication. The last two pillars are important for countries that are already at an advanced stage of development. The pillar of business sophistication depicts the quality of business networks and the quality of firms' strategies in a country.
- Twelfth pillar: Innovation. All the aforementioned factors seem to run into diminishing returns. Only technological innovation can guarantee substantial productivity gains and a remarkable improvement in the standards of living.

Stage of development

Another factor that influences the calculation of the GCI is the stage of development of the local economy. Two criteria are used to allocate a country into a specific stage: the first is the level of Gross Domestic Product (GDP) per capita at market exchange rates and the second is the share of exports of mineral goods in total exports, goods and services (WEF 2013a, p. 10-11).

A country can be categorized to one out of three different stages of development. Economies in the first stage are factor-driven. Their assets are mainly the cheap low-skilled labor and the existence of natural resources. Their competitiveness is mostly influenced by the four first pillars of the GCI. It needs to be mentioned that if a country's exports of mineral products account for more than 70% of the whole exports, the country is automatically allocated into the first stage of development.

Economies in the second stage of development are efficiency-driven, since they incorporate more sophisticated production processes. Furthermore, the quality of products and the wages are increased in comparison with the factor-driven economies. The most important pillars determining the level of competitiveness of these economies are pillars 5 to 10.

Finally, the most developed economies are in the innovation-driven stage. Wages are higher and are sustained at this level by the companies' ability to produce new goods using technology and the most sophisticated production processes. The business sophistication pillar and the innovation pillar are the most crucial for the innovation-driven economies.

	STAGES OF DEVELOPMENT				
	Stage 1: Factor-driven	Transition from stage 1 to stage 2	Stage 2: Efficiency-driven	Transition from stage 2 to stage 3	Stage 3: Innovation-driven
GDP per capita (US\$) thresholds*	<2,000	2,000–2,999	3,000–8,999	9,000–17,000	>17,000
Weight for basic requirements subindex	60%	40–60%	40%	20–40%	20%
Weight for efficiency enhancers subindex	35%	35–50%	50%	50%	50%
Weight for innovation and sophistication factors	5%	5–10%	10%	10–30%	30%

Figure 3. Sub-index weights and income threshold for stages of development (WEF 2013a, p. 10).

The stage of development influences the estimation of the GCI in the following way: relative weights are allocated to each pillar, depending on the stage of development the country is. Hence, higher weights are allocated to the most relevant pillars with an economy's performance. For the factor-driven economies the pillars of the basic requirements sub-index are more significant, for the efficiency driven economies the pillars of the efficiency enhancers sub-index and for the innovation-driven economies the pillars of the innovation and sophistication factors sub-index (Figure 3). It should be also added that a country can belong to a transition stage either between stages one and two, or between stages two and three, as it happens in the case of Russia (Table 1).

Stage 1: Factor driven economies	Transition from stage 1 to stage 2	Stage 2: Efficiency driven	Transition from stage 2 to stage 3	Stage 3: Innovation driven
-	Armenia	Bulgaria	Russia	Greece
	Azerbaijan	Georgia	Turkey	
	Moldova	Romania		
		Ukraine		

Table 1. The stage of development of the BS-10 countries (WEF 2013a, p. 11).

Sustainable Competitiveness of Nations

The competitiveness is a very important parameter of an economy. Nevertheless, it fails to grasp the potential negative effects an economic model may have either on certain social strata or on the natural environment. A more spherical perception of the matter is provided by the sustainability-adjusted GCI, which takes into consideration the social sustainability, as well as the environmental sustainability of an economic model. Unfortunately, we are not yet in a position to fully understand and measure the relationship between economic growth and social and environmental sustainability.

Sustainable competitiveness is defined as "the set of institutions, policies and factors that make a nation remain productive over the longer term while ensuring social and environmental sustainability" (WEF 2013a, p. 55). It is calculated as the average of the social sustainability-adjusted GCI and the environmental sustainability-adjusted GCI (WEF 2013a, p. 62-64). For the estimation of the former three elements are used: population's access to basic necessities, population's vulnerability to economic exclusion, and assessment of social cohesion; for the estimation of the latter three areas are measured: environmental policy, use of renewable resources, and degradation of the environment.

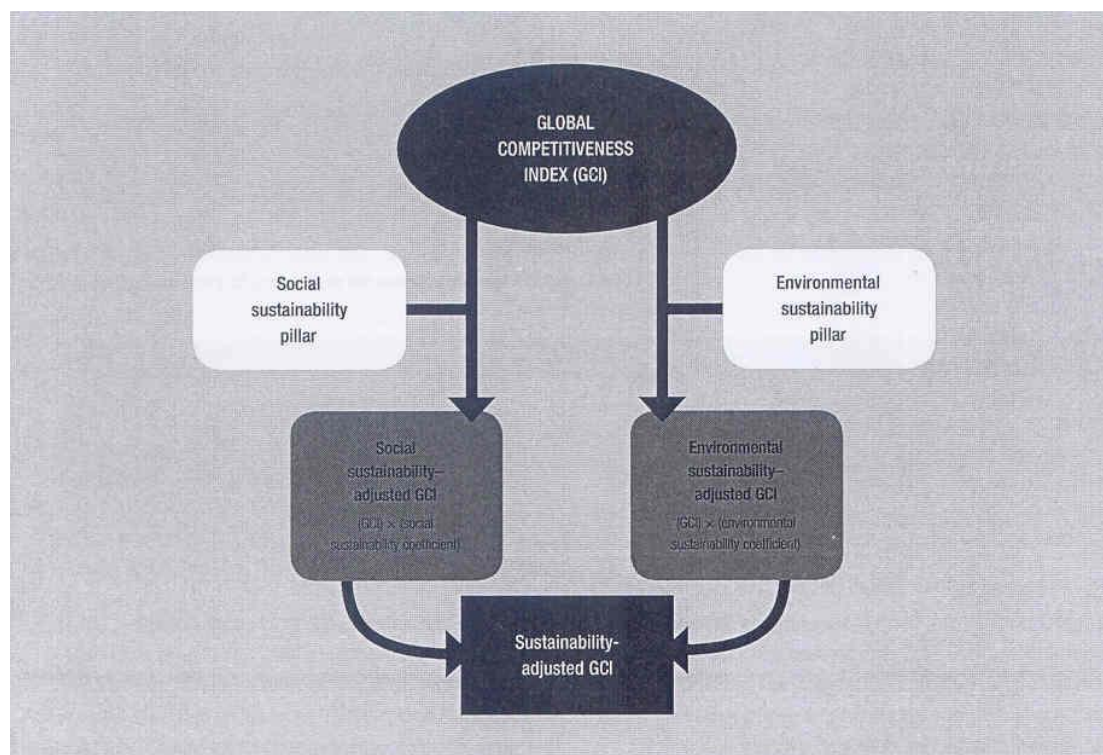


Figure 4. The structure of the sustainability-adjusted GCI (WEF 2013a, p. 62).

2.2 Ease of Doing Business

This year's Doing Business report is the 10th consecutive edition. It covers 11 topics (indicators) and 185 economies. The first edition was published in 2003 and at the time it covered 5 topics (indicators) and 133 economies. Despite the fact that the methodology has undergone continual improvements during these years⁵, the goal

⁵ For example, this year's insert is an update in the ranking methodology for paying taxes.

remains the same: "to provide an objective basis for understanding and improving the regulatory environment for business" (WB 2013a, p. 16).

What Doing Business does

Doing Business tries to measure objectively business regulations for local firms, in order to capture all the meaningful dimensions of the regulatory environment which apply to them. It focuses mainly on small and medium-size enterprises (SMEs) in the largest business city of the countries (WB 2013a, p. 15). The reason for this is because small and medium-size companies play a substantial role in competition, job creation, and economic growth, especially in the developing world.

What Doing Business does not do

The Doing Business methodology presents three types of weaknesses. First of all, it measures the regulatory efficiency of countries only relative to the efficiency of other countries and not in absolute terms. Hence, neither does it provide information on the magnitude of the gap between the performance of two economies, nor does it enlighten us regarding the improvement or the deterioration of a regulatory environment over time. In order to tackle this problem, the report also presents the distance to frontier measure (WB 2013a, p. 133). This measure tries to portray the distance of an economy to the "frontier", viz. the highest possible performance an economy can have at a time. As a result, the distance to frontier measure enables us to make comparisons across different countries in the same year, as well as across time for the same country.

Another weakness of Doing Business methodology is the fact that it does not deal with a variety of parameters which influence the business environment of an economy (WB 2013a, p. 17). For example, it does not take into consideration important factors, such as the level of corruption, the macroeconomic characteristics of the country, and the shape of her financial system.

Finally, the methodology has some limitations in the way that it uses its data:

- the data refer to businesses in the country's biggest business city, which may not be representative of the situation that prevails in the country, especially in big, federal states.
- a specific type of business is used as a model, but again this may not be representative of the businesses existing in the country.
- standardized case scenarios with specific assumptions are used in the estimation of the indicators, but these case scenarios may not include some issues a business encounters.
- subjectivity is involved in measuring some values, since some answers to the questions of the questionnaires depend on the judgment of the respondents.
- for the sake of practicality some assumptions are made, which do not always correspond to what usually happens, e.g. a company is supposed to have full information on what is required and it does not spend additional time when completing procedures, bribes are never taken into account etc.

How governments use the report

The Doing Business methodology has various advantages. A basic one is the fact that it uses an inexpensive and easily replicable process. As a result, the same kind of data are collected from all the economies included in the report. But the most important is that it constitutes a very useful tool for the governments and the policy

makers (WB 2013a, p. 22). It underlines good economic practices and it highlights weak behaviors that have to be revised. A frequent phenomenon is when a country uses another country as a model and try to imitate her regulatory environment⁶. Moreover, taking into consideration the correlation between the ease of doing business and the Foreign Direct Investment (FDI) flows (WB 2013a, p. 47), many governments try to increase the investment inflow by enhancing the regulatory business environment.

Data and methodology

The data are collected in a standardized way through the completion of questionnaires (WB 2013a, p. 106). The questionnaires are filled by 9,600 local experts and ensure the comparability across countries and over time. Generally, there are two types of data used for the completion of Doing Business (WB 2013a, p. 16). The first one comes from studying the laws and regulations of every country included in the report. Besides, this is the reason why many of the experts participating in the process are lawyers. Other experts are business consultants, accountants, government officials, as well as other professionals dealing with the regulatory framework. The second type of data are inputs into indicators measuring the complexity, the time and the cost of regulatory processes.

The use of indicators

In general terms, the indicators measure the business regulation and the protection of property rights, as well as the effect they both have on businesses. There is some correlation between the indicators, but the ranking of an economy can sometimes vary a lot across them (WB 2013a, p. 132). The average correlation coefficient among the 10 indicators is 0.37, the biggest coefficient is observed between "Starting a business" and "Protecting investors" indicators (0.60) and the smallest between "Dealing with construction permits" and "Getting credit" indicators (0.19). The whole set of coefficients can be seen in Figure 5.

	Dealing with construction permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Getting electricity
Starting a business	0.34	0.30	0.44	0.60	0.40	0.40	0.40	0.44	0.28
Dealing with construction permits		0.24	0.19	0.21	0.41	0.49	0.23	0.36	0.49
Registering property			0.37	0.33	0.37	0.29	0.50	0.38	0.26
Getting credit				0.49	0.26	0.38	0.43	0.49	0.22
Protecting investors					0.39	0.36	0.30	0.41	0.22
Paying taxes						0.50	0.33	0.42	0.46
Trading across borders							0.36	0.55	0.58
Enforcing contracts								0.46	0.24
Resolving insolvency									0.32

Source: Doing Business database.

Figure 5. Correlations between economy rankings on Doing Business topics (WB 2013a, p. 132).

⁶ Mauritius has been a model for many African countries and France for Saudi Arabia (WB 2013a, p. 22).

Generally, the indicators (WB 2013a, p. 106):

- Document the complexity of regulation by counting the number of procedures required for an action to take place.
- Estimate the cost and the time of complying with regulation.
- Measure the extent of legal protection of property.
- Record the tax burden on businesses.
- Present various aspects of employment regulation.

The list of indicators

The chapter focused on the methodology used in "Doing Business 2013" ends with a brief listing of the indicators, accompanied by a concise description of their estimation (WB 2013a, p. 108-129).

1) *Starting a business.*

This indicator measures the procedures required for an industrial or commercial business to start, the time and the cost needed for these procedures be implemented, as well as the paid-in minimum capital requirement. The latter is the amount of income being deposited in a bank before registration and is calculated as a percentage of income per capita. The ranking of the indicator is the average of the percentile rankings on the aforementioned 4 components (Figure 6).

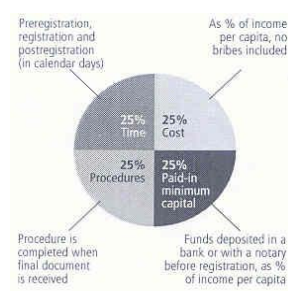


Figure 6. Starting a business indicator (WB 2013a, p. 109).

2) *Dealing with construction permits.*

This indicator is the average of the percentile rankings of the number of procedures required by a business in the construction industry to build a warehouse, the time, and finally the cost of completing these procedures (Figure 7).

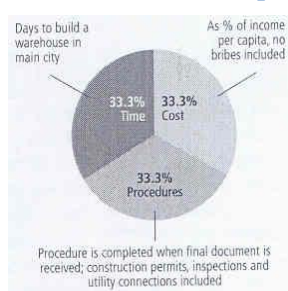


Figure 7. Dealing with construction permits indicator (WB 2013a, p. 110).

3) *Getting electricity.*

The ranking of the ease of getting electricity estimates the average of the percentile rankings on its 3 components, viz. the number of procedures required for a business to have access to the electricity network, the time, and the cost needed for these procedures to take place (Figure 8).

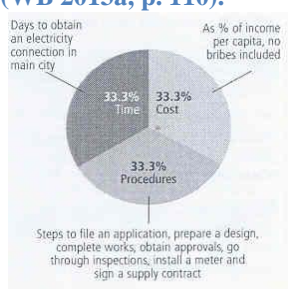


Figure 8. Getting electricity indicator (WB 2013a, p. 112).

4) *Registering property.*

The ranking of the ease of registering property is based on the average of the percentile ranking of its 3 components, viz. the number of procedures necessary for a buyer to purchase a property from a seller and to transfer the property title to his/her name, the time, and finally the cost required for these steps to be implemented (Figure 9).



Figure 9. Registering property indicator (WB 2013a, p. 114).

5) *Getting credit.*

The ranking of the ease of getting credit is derived from the percentile rankings of the depth of credit information index and the strength of legal rights index (Figure 10).

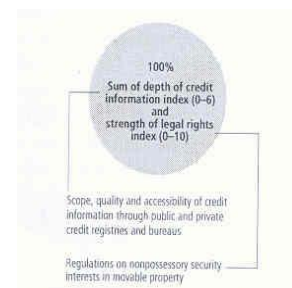


Figure 10. Getting credit indicator (WB 2013a, p. 115).

6) *Protecting investors.*

The strength of investor protection consists of the following 3 components: transparency regarding the transactions of the related parties, the extent of director liability, the ability of the shareholder to sue officers and directors (Figure 11).

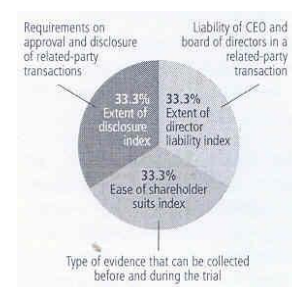


Figure 11. Protecting investors indicator (WB 2013a, p. 118).

7) *Paying taxes.*

This indicator has three dimensions. First of all the total number of taxes and contributions a medium sized company has to pay in the second year of its operation. Secondly, the time -measured in hours per year- needed to prepare, file, and pay the corporate income tax, value added or sales tax, and labor taxes. Finally, the total amount of taxes and contributions the company pays in the second year of its operation, calculated as a share of its commercial profit (Figure 12).

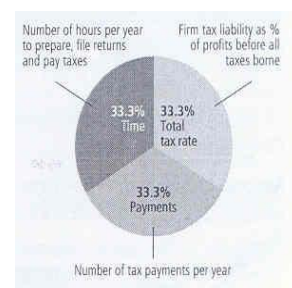


Figure 12. Paying taxes indicator (WB 2013a, p. 120).

8) *Trading across borders.*

The ease of trading across borders is based on 3 component indicators: the number of documents needed by the trader to export or import the goods across the border, the time and the cost for every necessary action to be completed. It should also be mentioned that time and cost for sea transport are not included (Figure 13).

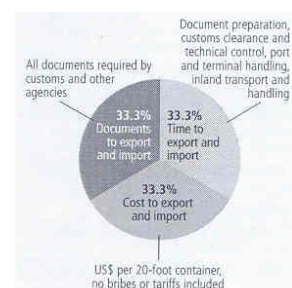


Figure 13. Trading across borders indicator (WB 2013a, p. 123).

9) *Enforcing contracts.*

The ease of enforcing contracts stems from the combination of three components. The first one is the number of procedural steps required for the resolution of a commercial dispute. The second is the time -measured in calendar days- from the lawsuit to the payment, and the third is the total sum of costs expressed as a percentage of the claim (Figure 14).

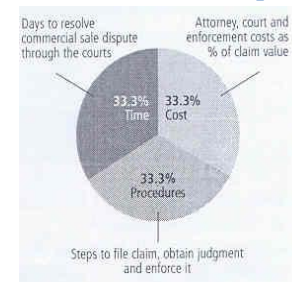


Figure 14. Enforcing contracts indicator (WB 2013a, p. 124).

10) *Resolving insolvency.*

This indicator is a function of time recorded in calendar days, cost recorded as a percentage of the value of the debtor's estate, outcome as for whether the company continues to operate, and recovery rate recorded as percentage recouped by creditors through reorganization, liquidation, and debt foreclosure proceedings.

11) *Employing workers.*

Doing business does not present a ranking of the countries regarding this indicator, nevertheless it presents some data for each country in an annex. The data represent the difficulty of hiring, the rigidity of hours, the difficulty of redundancy, and the redundancy cost.

3. Competitiveness: data and analysis

As it was pinpointed in the previous chapter, the GCI was created in 2001 aspiring to express in a quantitative manner how competitive economies are. In 2005, it obtained a more sophisticated form which maintains till today with minor modifications. In this chapter, GCI data are presented in four different tables and then are analyzed. The analysis is twofold, regional analysis covering the BS-10 region, as well as the Commonwealth of Independent States (CIS) region⁷, followed by country analysis focusing specifically on Russia.

Table 2 contains data from 2001 till today⁸ for all the BS-10 economies. The record of the competitiveness of the countries is compared with that of China, the USA, and the average of some economic regions, viz. the Balkans (BAL-12)⁹, the EU¹⁰, and the CIS. The countries are graded on a 1 to 7 basis, with 1 signifying the worst possible performance and 7 representing the best. With respect to the CIS average, it should be noted that the WEF does not dispose data for Belarus, Turkmenistan, and Uzbekistan. Therefore, the average is extracted from the other 8 countries of the area. Data are also missing for Moldova in 2009 and for Tajikistan in 2013. Finally, there is no point in calculating the CIS average before 2005, since only Russia and Ukraine were then included in the report.

Table 3 refers to the same period, but includes the world ranking of the performance of the BS-10 economies. Table 4 and Table 5 contain this year's data. They decompose the Competitiveness Index to its pillars and demonstrate the performance of the Black Sea countries in each one of them and their global ranking respectively. The scale used in Table 4 is again from 1 to 7 with the same rationale of grading. In all the aforementioned tables the best performer of the BS-10 region is highlighted with green color and the worst performer with blue color. All data used are retrieved from the WEF reports.

⁷ The Commonwealth of Independent States (CIS) consists of the following 11 countries: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan. Despite the fact that Turkmenistan and Ukraine have not ratified the CIS Charter, they are de facto members of the organization. Georgia is an ex-member, which withdrew after the Russia-Georgia war in South Ossetia, in August of 2008.

⁸ The most recent Global Competitiveness Report was published in September 2013 and contains data for 2013/14.

⁹ The Balkan region consists of the following 13 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia (FYROM), Moldova, Montenegro, Romania, Serbia, Slovenia, Turkey. However, data for Kosovo are not available.

¹⁰ Croatia became the 28th member of the EU on 01/07/2013. As a result, her performance is normally included in the calculation of the EU averages, both regarding the GCI and the EDB data.

3.1 Tables

Country index	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average 2001-2013
Armenia	-	-	-	-	3.44	3.75	3.76	3.73	3.71	3.76	3.89	4.02	4.10	3.80
Azerbaijan	-	-	-	-	3.64	4.06	4.07	4.10	4.30	4.29	4.31	4.41	4.51	4.19
Bulgaria	3.82	3.68	3.67	3.98	3.83	3.96	3.93	4.03	4.02	4.13	4.16	4.27	4.31	3.98
Georgia	-	-	-	3.14	3.25	3.73	3.83	3.86	3.81	3.86	3.95	4.07	4.15	3.77
Greece	4.46	4.32	4.58	4.56	4.26	4.33	4.08	4.11	4.04	3.99	3.92	3.86	3.93	4.19
Moldova	-	-	-	-	3.37	3.71	3.64	3.75	-	3.86	3.89	3.94	3.94	3.76
Romania	3.84	3.59	3.38	3.86	3.67	4.02	3.97	4.10	4.11	4.16	4.08	4.07	4.13	3.92
Russia	3.70	3.64	3.46	3.68	3.53	4.08	4.19	4.31	4.15	4.24	4.21	4.20	4.25	3.97
Turkey	3.86	3.31	3.65	3.82	3.68	4.14	4.25	4.15	4.16	4.25	4.28	4.45	4.45	4.03
Ukraine	3.26	2.97	3.17	3.27	3.30	3.89	3.98	4.09	3.95	3.90	4.00	4.14	4.05	3.69
China	4.40	4.37	4.19	4.29	4.07	4.24	4.57	4.70	4.74	4.84	4.90	4.83	4.84	4.54
USA	5.95	5.93	5.81	5.82	5.81	5.61	5.67	5.74	5.59	5.43	5.43	5.47	5.48	5.67
BS-10 av.	3.82	3.59	3.65	3.76	3.60	3.97	3.97	4.02	4.03	4.04	4.07	4.14	4.18	3.91
BAL-12 av.	4.14	3.89	3.82	3.87	3.64	3.98	3.92	3.99	4.00	4.06	4.07	4.07	4.09	3.96
EU-28 av.	4.92	4.60	4.76	4.62	4.66	4.87	4.72	4.73	4.67	4.68	4.69	4.71	4.70	4.72
CIS	-	-	-	-	3.34	3.81	3.81	3.87	3.85	3.90	3.96	4.04	4.12	3.86

Table 2. Global Competitiveness Index of the Black Sea countries from 2001 to 2013.

Country ranking	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2001-2013
Armenia	-	-	-	-	79	82	93	97	97	98	92	82	79	0
Azerbaijan	-	-	-	-	69	64	66	69	51	57	55	46	39	+30
Bulgaria	59	62	64	59	58	72	79	76	76	71	74	62	57	-2
Georgia	-	-	-	94	86	85	90	90	90	93	88	77	72	+22
Greece	36	38	35	37	46	47	65	67	71	83	90	96	91	-55
Moldova	-	-	-	-	82	86	97	95	-	94	93	87	89	-7
Romania	56	66	75	63	67	68	74	68	64	67	77	78	76	-20
Russia	63	64	70	70	75	62	58	51	63	63	66	67	64	-1
Turkey	54	69	65	66	66	59	53	63	61	61	59	43	44	+10
Ukraine	69	77	84	86	84	78	73	72	82	89	82	73	84	-15
Countries	75	80	102	104	117	125	131	134	133	139	142	144	148	+73

Table 3. Global Competitiveness ranking of the Black Sea countries from 2001 to 2013.

Pillars	Basic Requirements				Efficiency Enhancers						Innovation	
	Institutions	Infrastructure	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	3.98	3.81	4.88	5.46	4.18	4.34	4.49	3.91	3.74	2.73	3.82	2.99
AZE	4.06	4.06	6.42	5.07	4.00	4.27	4.72	3.80	4.17	3.60	3.97	3.45
BUL	3.38	3.93	5.61	6.00	4.25	4.19	4.36	3.95	4.45	3.87	3.59	2.97
GEO	4.00	4.31	4.91	5.75	3.79	4.29	4.59	3.91	3.83	2.96	3.47	2.68
GRE	3.49	4.79	2.82	6.10	4.81	3.93	3.77	2.86	4.62	4.37	3.84	3.08
MOL	3.24	3.57	4.62	5.38	3.88	3.93	4.09	3.60	3.89	2.55	3.32	2.42
ROM	3.34	3.33	5.14	5.47	4.41	3.89	3.96	3.95	4.14	4.44	3.62	3.01
RUS	3.28	4.61	5.93	5.71	4.66	3.80	4.31	3.39	3.97	5.78	3.56	3.13
TUR	4.08	4.45	4.62	5.86	4.29	4.52	3.74	4.40	4.05	5.30	4.36	3.47
UKR	2.99	4.07	4.20	5.84	4.75	3.81	4.18	3.46	3.28	4.60	3.68	3.03
CHI	4.24	4.51	6.29	6.06	4.23	4.32	4.63	4.32	3.44	6.85	4.31	3.89
USA	4.64	5.77	3.95	6.10	5.75	4.93	5.37	5.26	5.72	6.94	5.49	5.37
BS-10 av.	3.58	4.09	4.92	5.66	4.30	4.10	4.22	3.72	4.01	4.02	3.72	3.02
BAL-12 av.	3.64	3.99	4.46	5.86	4.39	4.10	4.07	3.71	4.13	3.53	3.69	3.10
EU-28 av.	4.48	5.10	4.84	6.23	5.14	4.59	4.42	4.26	5.20	4.31	4.59	4.06
CIS av.	3.53	3.85	5.14	5.42	4.23	4.05	4.41	3.62	3.69	3.74	3.62	2.90

Table 4. Global Competitiveness Index of the Black Sea countries decomposed to its 12 pillars (2013).

Pillars	Basic Requirements				Efficiency Enhancers						Innovation	
	Institutions	Infrastructure	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	65	80	64	85	77	58	50	76	72	117	87	103
AZE	59	69	8	109	87	71	30	88	50	72	70	51
BUL	107	75	30	45	69	81	61	73	44	63	106	105
GEO	64	56	61	70	92	67	40	75	68	103	120	126
GRE	103	38	147	35	41	108	127	138	39	47	83	87
MOL	122	88	77	93	90	107	95	105	64	124	125	138
ROM	114	100	47	84	59	117	110	72	54	46	101	97
RUS	121	45	19	71	47	126	72	121	59	7	107	78
TUR	56	49	76	59	65	43	130	51	58	16	43	50
UKR	137	68	107	62	43	124	84	117	94	38	97	93
CHI	47	48	10	40	70	61	34	54	85	2	45	32
USA	35	15	117	34	7	20	4	10	15	1	6	7

Table 5. Global competitiveness ranking of the Black Sea countries in every pillar of the GCI (2013).

3.2 Regional analysis

The most evident inference which can be deduced from the observation of Table 2 is that the majority of the countries of the Black Sea area have enhanced their competitiveness indexes throughout the years the GCI has been used. To a certain extent this is not a surprise, since these countries initiated their effort from behind. As a result, it was fairly easy for them to collect the easy fruits, at least in the beginning. However, they still lag by distance behind China, the EU, and most of all the USA; a further improvement of their performance in the upcoming future will be a real challenge for them. The Balkans and the CIS region also present the same kind of behavior; they have improved, but not so much in order to make strides in the world ranking list. This effect is better manifested in Table 3. There, we notice that despite the improvements having taken place all these years, most of the countries of the region remain somewhere near the middle of the world ranking table. Some of them have even lost some places, since other countries also become more competitive with the lapse of time.

A special remark needs to be made for Greece, which appears to have a very unstable -almost schizophrenic- attitude. During the first years of the century Greece had by far the most competitive economy of the region, whereas, the recent years the tables were turned and she became last in competitiveness. Furthermore, Greece has some characteristics which belong to the Western developed countries, but on the other hand she has also some other which belong to the developing world. Thus, she is the best performer of the region in pillars which pertain to health, education, infrastructure, and technology, but she has an absolutely horrible performance in all kinds of market efficiency (financial, labor, goods) and above all in macroeconomics. The crisis of 2008 is not an adequate explanation of the situation in the country, since the crisis hit severely many parts of the world. One can easily understand the macroeconomic disaster, it is difficult to conceive, though, that the crisis is responsible for the corrosion of the function of institutions or the inefficiency of the markets. Consequently, logical questions can be raised with regard to the evaluation of the competitiveness of Greece prior to and after the crisis.

Table 4 and Table 5 provide an insightful look to the current competitiveness of the BS-10 economies, comparing them in parallel with other countries and regions. They comprise the score of every country in every pillar and the world ranking of the country in the specific pillar. Useful knowledge can be extracted from the analysis of these tables. First of all, with respect to basic requirements, Turkey and the Caucasus countries (Azerbaijan, Georgia, and Armenia) have a decent institutional framework, whereas Ukraine has a very weak one. As a rule, the institutions in the area are weaker than in the USA, in the EU, even in China.

Concerning the infrastructure, Greece is the best performer of the region (38th out of 148 countries) and Romania the worst (100th). Again the region falls short in comparison with the USA, the EU, and China, but has a slightly better record than the Balkans and the CIS region. In general, almost in every pillar, the three regions, viz. BS-10, BAL-13, and CIS, have similar averages.

As far as the macroeconomic situation is concerned, Azerbaijan (8th) and Russia (19th) are the leaders of the region, thanks to the revenues pouring into these countries from raw materials and especially oil, while Greece is the undisputable last (147th) occupying the penultimate place in the whole table above Lebanon. An interesting element in this pillar is the dire straits of the USA (117th) due to severe macroeconomic problems. The gross debt has recently crossed the psychological threshold of 100% of the GDP, the deficits are hard to

tackle and the ambitious health program "ObamaCare" is about to create a new considerable burden for the government budget.

Finally, regarding the "Health & Primary Education" pillar, Greece and Bulgaria are the best performers of the region (35th and 45th respectively). In Azerbaijan on the other hand, education seems to be a troublesome issue. Not only is the country last in the Black Sea region (109th in the world) in primary education, but moreover she does not fare much better in the higher education either (87th).

As it was demonstrated in a previous chapter, the efficiency enhancers are the most significant pillars for the competitiveness of the majority of the BS-10 economies, since these economies are in the second stage of development. Greece (41st), Ukraine (43rd), and Russia (47th) have the most appealing record of the area in "Higher education & training", while Georgia (92nd), Moldova (90th), and Azerbaijan (87th) the most problematic one.

In terms of goods market, Russia (126th) and Ukraine (124th) appear to have a considerably distorted market, whereas Turkey (43rd) an efficient one, better than China and many European states, but not as qualitative as the American. The situation is different if we consider labor market, where Turkey is the worst performer in the area (130th) and Azerbaijan the best (30th). Concerning the financial market, Turkey's mighty financial sector (51st) creates boom conditions and support an impressive economic growth during the last years, whereas the Greek wrecked financial sector (138th) could not have survived without the help of the European Central Bank (ECB).

As it was underlined previously, Greece, despite the unprecedented crisis she experiences, manages to hold some characteristics of a sophisticated developed economy. Thus, she is the leader of the area in technological readiness (39th), while Ukraine is last (94th). We close the efficiency enhancers pillars with market size. It is well known from the economic theory that a big market size is a substantial comparative advantage, as it enables the development of economies of scale. As a result, countries with big population as Russia (7th) and Turkey (16th) can enjoy this benefit, at the same time small countries such as Moldova (124th) and Armenia (117th) have a handicap. It should be added that in the evaluation of the market size not only quantitative characteristics count, but also qualitative, that is how developed an economy is. Unfortunately, most of the countries of the BS-10 region are at a premature stage of development.

The last couple of pillars consists of innovation and business sophistication. The most developed economies have reached their frontier in the other pillars and only in these two pillars there is always space for further improvement. Therefore, they focus their efforts on this domain. To the contrary, less developed economies, such as the BS-10 economies, have other priorities. They pay more attention to the basic requirements and to the efficiency enhancers. Turkey is the sole country of the region which fares moderately well in these pillars (43th and 50th respectively) and Azerbaijan is decent in innovation (51st). Generally, Azerbaijan has improved rapidly her competitiveness in the last years trying to take advantage of the oil revenues in order to build a healthy, functional and modern economy. The other countries are found in the second half of the board regarding the innovation pillars. Moldova is the worst of all (125th and 138th respectively).

3.3 Country analysis

After a gradual improvement in the first half of the previous decade, the competitiveness of the Russian economy has remained generally stable. The country is in the 64th place this year, demonstrating few positive changes in the last 5 years. She is 47th in

basic requirements, 51st in efficiency enhancers, but fares pretty poorly in innovation and sophistication factors being ranked only 99th. The sustainability-adjusted GCI keeps pace with the GCI scores of the country (WEF 2013a, p. 71). Concerning the social component of sustainability, the social safety net is weak, inequality rises despite being already considerably high¹¹, and the social mobility is low. The environmental component of sustainability is even worse, since the ratings are disappointing in three indicators: the strength of environmental regulations, the number of treaties ratified, and the quality of the natural environment (WEF 2013b, p. 9). The following analysis of the data contained in Tables 4 and 5 gives us a more thorough view of the performance of the country in the competitiveness pillars (WEF 2013a, p. 326-327).

The overly defective function of the institutions (121st out of 148 countries) is probably the core of the problems which the Russian economy faces. In all the pertinent sub-indexes the Russian Federation has a disappointing record. The politicians, the government officials, the police officers, and the judicial system are anything but trustworthy, organized crime and terrorism constitute a permanent threat for businesses, the legal framework is inadequate, cronyism is rampant, the property rights essentially inexistent. Flawed institutions are a complicated issue in Russia with various causes and a number of implications. The deep-rooted corruption which traditionally torments the country, the democratic deficit, the centralized political system, and the resource curse are some of the main reasons fostering the problem, which in turn has negative ramifications to many aspects of the economy, the competitiveness and the business environment included.

Infrastructure is one of the pillars where the country fares moderately well (45th). There are enough fixed telephone lines and mobile telephone subscriptions, the railway network is good, but on the other hand the electricity supply, the port and airport infrastructure, and above all the roads need to be upgraded.

The macroeconomic environment can be characterized strong (11th) due to low government debt (10.9% of the GDP) and surplus in the government budget (0.4% of the GDP). The only worrisome element is the rather high inflation (5.1%), which should be curbed.

As far as health and primary education are concerned, some sub-indexes are particularly alarming (Russia is 71st in this pillar). About 1% of the whole population is HIV-infected, one of the highest percentages in the world outside sub-Saharan Africa, while there are 97 incidents of tuberculosis per 100,000 people. Furthermore, the life expectancy is pretty low, only 69 years, especially for men due to excessive alcohol consumption (male life expectancy is around 64 years). Finally, the primary education enrollment is only 93.4%, which is not a very flattering performance.

Russia goes better in higher education and training (47th). The tertiary enrollment rate is one of the highest in the world (75.9%), in contrast with the secondary which is low (88.6%), but the quality of the educational system- especially of the management schools- is not sufficient.

With regard to goods market efficiency, Russia has a disgraceful image (126th). There is no healthy competition mainly because of the inefficient anti-monopoly policies. Moreover, the total tax rate is high (54.1% of the profits) and acts as a deterrent effect for wannabe investors. But the most important of all is the policy of exclusion of foreign players from the Russian market. The imports are barely equal to 21.6% of the GDP, FDI is scarce, the trade tariffs are high, the trade barriers are almost insurmountable. This situation does not

¹¹ According to Research Institute (2013, p. 53), Russia has the highest level of income inequality in the world.

seem to happen by accident. On the contrary, it constitutes an official state policy trying to ensure the position of particular insiders.

With respect to labor market efficiency, Russia has an intermediate record (72nd). The wages are flexible, the men to women ratio in the labor force is acceptable, and the pay is linked with productivity. On the other hand, the cooperation between employers and employees is not satisfactory, the high levels of taxation have a considerably negative effect on incentives to work, and above all, Russia ails from human capital flight, since she can not attract and retain the most talented employees, who leave the country in search of better pay and conditions.

The financial market is another problematic sector (121st in the world ranking). The legal rights are extremely weak, the financial services and the stock market malfunction, and the banks are not healthy. We will have a closer look at the Russian banking system later in this chapter.

In terms of technological readiness, Russia is in the 59th place. The number of broadband subscriptions -either mobile or fixed- is quite decent, as well as the internet bandwidth. The share of the population using internet is 53.3%. The problem lies in latest technologies, which are not available, since they are neither absorbed by local firms, nor imported through the non-existent FDI.

It is known that big markets enable the creation of economies of scale. Under this perception, one of the most important comparative advantage of the Russian economy is market size. The country has a population of 143 million, which underpins the competitiveness of the economy (7th in this pillar). Moreover, the GDP per capita continually increases, in 2012 it was 23501 dollars¹² in Purchasing Power Parity (PPP) exchange rates.

Finally, in the last two pillars, which are related to innovation, Russia's performance is poor. She is 107th in business sophistication and 78th in innovation. Regarding the business sophistication, there are very few and of low quality local suppliers, the competitive advantage of the country's companies is the fact that they are based on natural resources, and the production processes are not sophisticated. With respect to innovation, companies have a mediocre ability to innovate, the scientific research institutions are not among the best in the world, enterprises do not invest in research and development (R&D), and the collaboration between universities and businesses is far from perfect.

4. Business environment: data and analysis

This chapter deals with the business environment in the Black Sea region and in Russia in particular. Data derived from the Doing Business Reports from 2006, when the list of indicators took more or less the form of today, till 2013 are demonstrated in six different tables, followed by a thorough regional and country analysis. In Table 6, the world ranking of the countries regarding the ease of doing business during these 8 years is presented. In Table 7, the index of 2013 is decomposed to its 10 pillars and again a world ranking is given for each one of them. In the next table, the reader can see the reforms that took place in the last year and affected the business environment either positively or negatively. As it was commented in the methodological chapter, one of the disadvantages of the Doing Business index is the fact that it demonstrates only the ranking of the countries. Due to the lack of

¹² According to the official site of the World Bank: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>

absolute numbers, it is not fully clarified how well or how badly a country does in a specific indicator. In order to overcome this problem we demonstrate some arithmetic data in Tables 9 to 11, specifically the number of procedures required for each pillar, the time needed for these procedures to be implemented, as well as their cost. Hence, we are enlightened where exactly a country ails.

The states of the BS-10 region are compared with China, the USA, the Balkans, the EU, and the CIS region. As far as the CIS region is concerned, it should be mentioned that no data are available for Turkmenistan. As a result, the averages stem from the characteristics of the other countries of the area. Furthermore, Albania has no laws or regulations for construction permits, consequently she is ranked last and she is not included in the calculation of the Balkan average in this pillar. Finally, we continue the same tactic used in the previous chapter to highlight with green color the best performer and with blue color the worst performer of the BS-10 region.

4.1 Tables

EDB country ranking	2006	2007	2008	2009	2010	2011	2012	2013	2006-2013
Armenia	46	34	39	44	43	48	55	32	+14
Azerbaijan	98	99	96	33	38	54	66	67	+31
Bulgaria	62	54	46	45	44	51	59	66	-4
Georgia	100	37	18	15	11	12	16	9	+91
Greece	80	109	100	96	109	109	100	78	+2
Moldova	83	103	92	103	94	90	81	83	0
Romania	78	49	48	47	55	56	72	72	+6
Russia	79	96	106	120	120	123	120	112	-33
Turkey	93	91	57	59	73	65	71	71	+22
Ukraine	124	128	139	145	142	145	152	137	-13
Countries	155	175	178	181	183	183	183	185	+30

Table 6. Ease of Doing Business ranking of the Black Sea countries from 2006 to 2013.

Indicators country ranking	EDB index	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Armenia	32	11	46	101	4	40	25	108	107	91	63
Azerbaijan	67	18	177	175	9	53	25	76	169	25	95
Bulgaria	66	57	123	128	68	40	49	91	93	86	93
Georgia	9	7	3	50	1	4	19	33	38	30	81
Greece	78	146	31	59	150	83	117	56	62	87	50
Moldova	83	92	168	161	16	40	82	109	142	26	91
Romania	72	68	129	168	72	12	49	136	72	60	102
Russia	112	101	178	184	46	104	117	64	162	11	53
Turkey	71	72	142	68	42	83	70	80	78	40	124
Ukraine	137	50	183	166	149	23	117	165	145	42	157
China	91	151	181	114	44	70	100	122	68	19	82
USA	4	13	17	19	25	4	6	69	22	6	16

Table 7. Ease of doing Business indicator ranking of the Black Sea countries (2013).

Last year's reforms	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Armenia			√			√				
Azerbaijan	-	-	-	-	-	-	-	-	-	-
Bulgaria	√									
Georgia			√		√		√	√	√	√
Greece		√				√				√
Moldova						√	X		X	√
Romania	√				√					
Russia		√					√			
Turkey		√							√	
Ukraine	√			√			√			
China	√	√								
USA	-	-	-	-	-	-	-	-	-	-

Table 8. Positive and negative business reforms taking place in 2011/2012 in the Black Sea countries, in China, and in the USA.

√ Doing Business reform making it easier to do business

X Doing Business reform making it more difficult to do business

Number of procedures	Starting a business (procedures)	Dealing with construction permits (procedures)	Getting electricity (procedures)	Registering property (procedures)	Paying taxes (payments per year)	Documents to export	Documents to import	Enforcing contracts (procedures)
Armenia	3	17	5	3	13	5	8	49
Azerbaijan	6	28	9	4	18	8	10	39
Bulgaria	4	21	6	8	15	5	6	39
Georgia	7	9	4	1	5	4	4	33
Greece	11	15	6	11	8	5	6	39
Moldova	7	26	7	5	48	7	7	31
Romania	6	15	7	8	41	5	6	32
Russia	8	42	10	5	7	8	11	36
Turkey	6	20	5	6	15	7	7	36
Ukraine	7	20	11	10	28	6	8	30
China	13	28	5	4	7	8	5	37
USA	6	15	4	4	11	4	5	32
BS-10 av.	6.50	21.30	7.00	6.10	19.80	6.00	7.30	36.40
BAL-13 av.	6.15	16.92	5.85	6.62	30.85	6.46	7.08	38.31
EU-28 av.	5.79	14.86	5.18	5.07	12.75	4.71	5.50	32.79
CIS av.	5.50	23.80	8.00	5.80	29.20	8.40	10.10	36.60

Table 9. Number of procedures needed for the completion of a bureaucratic task in the Black Sea region and in other regions (2013).

Time	Starting a business (days)	Dealing with construction permits (days)	Getting electricity (days)	Registering property (days)	Paying taxes (hours per year)	Time to export (days)	Time to import (days)	Enforcing contracts (days)	Resolving insolvency (years)
Armenia	8	77	242	7	380	13	18	440	1.9
Azerbaijan	8	212	241	11	214	38	38	237	2.7
Bulgaria	18	107	130	15	454	21	17	564	3.3
Georgia	2	74	71	2	280	9	10	285	2.0
Greece	11	89	62	18	202	19	15	819	2.0
Moldova	9	291	140	5	220	32	35	327	2.8
Romania	10	287	223	26	216	12	13	512	3.3
Russia	18	344	281	44	177	21	36	270	2.0
Turkey	6	180	70	6	223	13	14	420	3.3
Ukraine	22	375	285	69	491	30	33	343	2.9
China	33	270	145	29	338	21	24	406	1.7
USA	6	27	68	12	175	6	5	370	1.5
BS-10 av.	11.20	203.60	174.50	20.30	285.70	20.80	22.90	421.70	2.62
BAL-13 av.	14.30	204.75	110.46	38.23	262.85	16.92	16.08	573.77	2.50
EU-28 av.	13.36	187.71	128.68	29.86	195.07	12.46	11.96	542.07	2.08
CIS av.	13.50	223.10	190.80	30.60	264.70	44.40	50.50	314.70	2.45

Table 10. Time needed for the completion of a bureaucratic task in the Black Sea region and in other regions (2013).

Cost	Starting a business (% of income per capita)	Dealing with construction permits (% of income per capita)	Getting electricity (% of income per capita)	Registering property (% of property value)	Paying taxes (total tax rate in % of profit)	Cost to export (US\$ per container)	Cost to import (US\$ per container)	Enforcing contracts (% of claim)	Resolving insolvency (% of estate)	Resolving insolvency (recovery rate in cents on the dollar)
Armenia	2.5	50.1	107.3	0.2	38.8	1815	2195	19.0	4	41.2
Azerbaijan	2.3	292.4	591.2	0.5	40.0	3430	3490	18.5	8	30.6
Bulgaria	1.1	293.5	340.7	2.9	28.7	1551	1626	23.8	9	31.7
Georgia	3.8	17.7	561.8	0.1	16.5	1355	1595	29.9	4	35.7
Greece	20.5	27.5	62.4	11.8	44.6	1115	1135	14.4	9	44.5
Moldova	5.7	69.3	578.0	0.9	31.2	1545	1870	28.6	9	32.0
Romania	2.8	79.1	584.2	1.2	44.2	1485	1495	28.9	11	29.2
Russia	2.0	129.2	1573.7	0.2	54.1	2820	2920	13.4	9	43.4
Turkey	10.5	164.3	517.9	3.3	41.2	990	1235	24.9	15	23.6
Ukraine	1.5	1262.6	192.3	3.7	55.4	1865	2155	41.5	42	8.7
China	85.7	375.3	547.0	3.6	63.7	580	615	11.1	22	35.7
USA	1.4	14.4	16.1	3.5	46.7	1090	1315	14.4	7	81.5
BS-10 av.	5.27	238.57	510.95	2.48	39.47	1797.10	1971.60	24.29	12.00	32.06
BAL-13 av.	9.16	706.25	445.63	4.12	30.87	1244.38	1312.77	25.99	11.08	36.17
EU-28 av.	5.01	116.48	169.66	4.63	43.06	1014.29	1075.93	21.20	10.39	61.45
CIS av.	5.06	277.17	894.19	1.27	56.07	3486.50	3886.00	24.31	14.30	32.56

Table 11. Cost of the completion of a bureaucratic task in the Black Sea region and in other regions (2013).

4.2 Regional analysis

In general terms, the BS-10 countries have an intermediate performance, as far as doing business is concerned. Georgia is an excellent performer, one of the best in the whole world (9th out of 185 countries), Armenia also fares pretty well (32nd). Going to the other edge, Ukraine is the most problematic country of the region (137th), but Russia is not in a much better shape either (112th). The rest of the countries find themselves somewhere in the middle of the world ranking table. The situation is a little worse for the CIS countries, as expected. On the one hand, there are many countries belonging to both these regions, on the other hand, countries such as Tajikistan and Uzbekistan have a very hostile environment toward business and deteriorate the average of the CIS organization.

Regarding the "Starting a business" pillar, the BS-10 area does rather well, especially in the time needed to implement the necessary procedures. One wastes less time in the BS-10 region than in the BAL-13 region, in the EU-28, or in the CIS region. The number of procedures is roughly equal for all of them, though, but the cost of them is lower in the Black Sea states than in the Balkans and in China. China has to improve a lot to catch up with other countries in this pillar, whereas, in the USA one needs approximately half the time to start a business, in comparison with the aforementioned regions. Georgia is the best performer (7th) and Greece the worst of the BS-10 area (146th).

As far as constructing permits are concerned, with the exceptions of Georgia (3rd), Greece (31st) and Armenia (46th), the rest of the Black Sea region faces severe problems. More procedures related to construction permits are necessary than in the Balkans, in the EU, and of course in the USA, but less than in China and in the CIS countries. Regarding the time spent and the necessary expenses, the procedures are more time- and money-consuming in the Black Sea region than in the EU and the USA, and less consuming than in China, in the BAL-13, and in the CIS countries. The laggard state of the region in this category is Ukraine (183rd).

The BS-10 area is also quite inefficient in "Getting electricity". The performance of Georgia (50th), Greece (59th), and Turkey (68th) is moderate, but all the other countries find themselves below the 100th place. Russia is in the penultimate place of the world ranking (184th) and thus is the worst performer of the area. One needs to complete more procedures in much more time to get electricity in the Black Sea region and in the CIS countries than in all the other regions included in the Tables 6 to 11.

The fourth pillar of the report is "Registering property" and the BS-10 area presents an encouraging image in this domain. It is worth mentioning that Georgia is the most efficient country in the world in registering property. Furthermore, Armenia (4th), Azerbaijan (9th), and Moldova (16th) have also very effective mechanisms to record holding. Nevertheless, poor performers Greece (150th) and Ukraine (149th) influence negatively the average of the region. Only in the USA much fewer days are required to register property. The number of procedures does not vary a lot from region to region, and the cost of them is in most countries trivial.

The reforms implemented during the previous year boosted Georgia and Romania to the 4th and 12th position respectively in the ease of getting credit. It should be also reported that this is the only pillar where Ukraine has a decent performance (23rd). On the other hand, Russia's rating is the worst among the countries of the region (104th in the world) due to its totally inefficient financial sector, which will be analyzed in the next chapter.

On the subject of the protection of investors, Greece, despite last year's positive reforms, is the most incompetent country of the region, along with Russia and Ukraine (117th). On the other hand, Georgia is again in the first places of the world ranking in this pillar (19th). Armenia and Azerbaijan seem to be in a very good shape as well (25th).

As far as paying taxes is concerned, the number of payments in the BS-10 economies is considerably bigger than the number of payments in the EU, in China, and in the USA, but smaller than in the CIS region and in the BAL-13 countries. Moldova and Romania have an excessive number of annual payments (48 and 41 respectively), whereas Georgia (5), Russia (7), and Greece (8) have the fewer in the region. The situation gets even worse on average for the Black Sea region if we examine the ease of paying taxes under a different perspective and use time as a measure of it. Only in China is paying taxes more time consuming; in the USA and in the EU-28 the environment is very friendly for the taxed companies. In Ukraine the companies have to dedicate 491 hours per year and in Bulgaria 454 to pay their taxes, while at the same time in Russia only 177 and in Greece 202. The sole heartening thing is the attractive total tax rate, which is not as low as in the Balkans, though.

The BS-10 area can not be proud of its performance in the facilitation of trading across borders either. Azerbaijan is 169th out of 185 countries, Russia 162nd, Ukraine 145th, and Moldova 142nd. As it happens with other pillars also, Georgia is the state that saves the pride of the region, since she is ranked 38th. The main problem does not lie in the number of documents needed for an export or an import to take place, but in the time and the money required for the whole process. The conditions in the CIS countries are far worse, since more than double time and approximately double amount of money is needed for the same processes to be completed.

Regarding the enforcement of contracts, the situation is considerably more pleasant. Taking into consideration both the number of procedures and the time spent for them, the ease of enforcing contracts does not differ much from what an enterprise expects to find in the first world, namely in the EU and in the USA. Surprisingly, in the CIS countries the indicators are even better than in the western countries. Russia (11th), Azerbaijan (25th), and Moldova (26th) are the best performers of the BS-10 area, while Armenia (91st), Greece (87th), and Bulgaria (86th) the worst.

The final pillar of the Doing Business Report is "Resolving Insolvency". Here the situation is rather gloomy. Greece (50th) and Russia (53th) demonstrate a decent record, while Ukraine (157th) and Turkey (124th) a disappointing one. In the latter countries, as well as in Bulgaria, Moldova, and Romania resolving an insolvency can last on average approximately 3 years, much more than in the USA and in the EU. What is more, the recovery rate is very low in the region.

In conclusion, as it can be deduced from Table 6 and Table 7, the business environment in the Black Sea region is not rosy. The encouraging thing is that the governments of the states struggle to ameliorate the conditions implementing various reforms in the right direction (Table 8). The countries of the area have a persuading excuse for their backwardness: the fact that they experience the free market economy for just over two decades. Most of them belonged to the so-called second world under a communist regime. As a result, after the collapse of communism they had to cover a vast distance to catch up with the developed world. The process of double transition, that is of democratization and marketization, was harsh and painful. However, little by little, their economies enhance their position and manage to find a role to play in our competitive world.

Georgia, the champion of the region

As it is emphatically manifested in Tables 6 and 7, there is a country in the Black Sea region whose competitiveness is enviable even by the most developed Western economies. Georgia is the best performer of the area -in some cases by a large distance- in 8 out of 10 comparable indicators of the Doing Business report. Effectively, only in resolving insolvency is her record problematic and still far behind the frontier (Figure 15).

This accomplishment can be attributed to a certain extent to her previous president Mikheil Saakashvili¹³. When Saakashvili took office in 2004 succeeding Eduard Shevardnadze, the economic environment in the country was anything but similar with today. Rampant corruption was prevalent in every aspect of the economic life hindering any kind of economic activity and setting back the development of the country. Saakashvili, despite not being an economist himself, was inspired by liberal economic ideas and launched a massive wave of reforms, which soon started to pay off. World Bank (2013b, p. 20, 29, 37, 46, 53, 62, 70, 79, 87, 97) reports the most influential of them from 2008 until today.

In 2008, Georgia abolished the paid-in capital requirement, simplified the procedures of obtaining construction permits with the use of one-stop shops, made registering property simpler, facilitated the access to information for getting credit, strengthened the investor protection by reforming her security laws, and finally legislated a concise and more functional bankruptcy process. Next year, the requirement of minimum capital was abolished and the presence of notaries became optional when starting a business, an online business registry was developed, the quality of credit information was further improved thanks to new regulations and to the extended scope of the private credit bureau in Georgia, and the corporate income tax rate was reduced from 20% to 15%. In 2010, the procedures related to construction permits were even more simplified and the trade with abroad became easier and cheaper. In 2011, a central collateral registry with an electronic database was created, the investors were allowed to access corporate information during trials, the resolution system and the auctions were modernized. In 2012, one could pay registration fees without visiting a bank, more assets could be used as collateral, new requirements pertinent to the approval of transactions were established, and the electronic payment of taxes made life easier for the companies. Finally this year, electricity connection fees were diminished, security interests were extended to the products, proceeds and replacement of collateral, more services were provided to the taxpayers, customs clearance zones reduced the time to export and import, commercial disputes were accelerated, time limits for insolvency procedures were introduced. Figure 15 illustrates how close Georgia approached the distance to frontier in almost all indicators -except resolving insolvency- in a time span of just 7 years, from 2005 to 2012.

¹³ Saakashvili took office in January 2004 and he retired in October 2013, since he did not have the right for a third tenure. In any case, his party lost the presidential elections clearly, as Giorgi Margvelashvili was elected from the first round with 62.11%. The change in the electorate's mood became evident in October 2012 when Saakashvili's party received a blow after a surprising loss in the parliamentary elections from the billionaire Bidzina Ivanishvili.

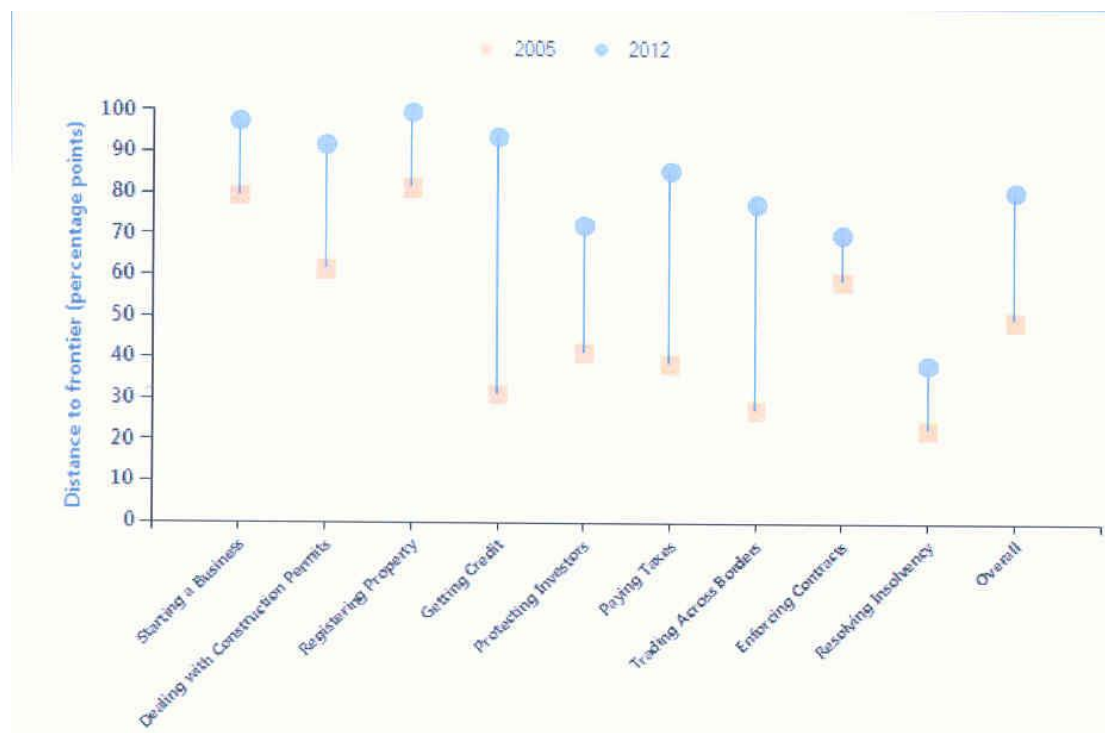


Figure 15. How close Georgia approached the frontier in each Doing Business indicator from 2005 till 2012 (WB 2013b, p. 9).

4.3 Country analysis

The business environment in Russia can be considered hostile. The country is 112th in the world ranking among 185 states and is mainly characterized by the existence of excessive bureaucracy. As a rule, a large number of procedures consuming too much time and money is required for almost anything an enterprise may want to do. It is important to underline that the WB does not include corruption in the estimation of the business environment. It is presupposed that there is no corruption influencing the business methods. Nevertheless, especially in countries like Russia, corruption is extravagant and adds a significant burden to companies. Bribes, extortions, blackmails augment significantly the cost of business and waste useful resources. A brief report of Russia's performance in the "Doing Business 2013" indicators follows (WB 2013a, p. 190).

One needs 18 days to start a business, this is the reason why Russia is ranked 101st in the domain. The situation is much worse in construction permits (178th in the world) -despite last year's reforms-, as someone has to complete 42 procedures in almost one year and spend 1.3 times the country's income per capita in order to obtain the legal permits. Getting electricity is also a big drama, consequently Russia is in the penultimate place in the whole world (184th) outperforming only Bangladesh! The problem with getting electricity is twofold, on the one hand 281 days are needed for a company to have access to the electricity network, on the other hand the company has to spend roughly 16 times the income per capita to manage it. Things are rosy in registering property though; Russia is 46th, but she has to do something to accelerate the procedures, because 44 days for property registration is a lengthy period. As it was mentioned in the previous chapter, the financial system in Russia ails, so the 104th place in the ease of getting credit comes as a logical aftermath. The protection of

investors is also limited (117th), the major problem being the small extent of the director liability. In terms of paying taxes, Russia has an intermediate performance (64th); on the one hand the recent reforms have successfully restricted bureaucracy, on the other hand the tax rate remains high (54.1% of the profits). As far as trading across borders is concerned, the situation is disappointing (162nd); the cost of every import and export is extremely high, many documents need to be completed, and especially in the case of experts there is a considerable delay in the whole process. The only area where Russia has an exceptional performance is the ability of the judicial system in resolving commercial disputes (11th), since the relevant procedures are cheaper and last less than in most other countries. Finally, Russia has a moderate record in resolving insolvency; the recovery rate is 43.4 cents on the dollar, which is better than the recovery rate achieved in most BS-10, BAL-13, and CIS states, but not as good as the recovery rate in the USA and in the EU.

Indicator	DB 2012	DB 2011	DB 2010	DB 2009	DB 2008	DB 2007	DB 2006	Total
Starting a business						1	1	2
Dealing with construction permits		1						1
Getting electricity	1							1
Registering property	1		1					2
Getting credit					1		1	2
Protecting investors								-
Paying taxes			1			1		2
Trading across borders	1						1	2
Enforcing contracts	1							1
Resolving insolvency		1	1					2
Total	4	2	3	-	1	2	3	15

Figure 16. Reforms implemented in Russia between 2006 and 2012 (WB 2012, p. 3).

Despite the general unattractive business climate, it would be unfair to claim that no attempts have been made recently to ameliorate the conditions. In Table 8, it is demonstrated that reforms pertinent to construction permits and taxation took place last year. In Figure 16, we can see all the reforms implemented in the previous 7 years, from 2006 till 2012. Over these years, Russia is among the 30 economies that advanced the most making 15 improvements across 9 indicators (WB 2012, p. 2-3). The magnitude of progress is better depicted in the next page in Figure 17, where we can see the distance of the economy's performance from the frontier in every area. The most significant improvements are observed in getting credit, in paying taxes, and in construction permits.

A final remark should be made on the data demonstrated in the Doing Business Reports. Each country is represented by the biggest business city, consequently Russia is represented by Moscow. The problem in this case is that the business environment in Moscow in a number of indicators is among the worst of the whole country (WB 2012, p. 2, 16, 20, 26, 32, 44). As a result, this lopsided situation creates an undeserved image of Russia, since the climate is much better in most regions of the country than what the numbers suggest.



Figure 17. Russia's improvement between 2006 and 2012 and her distance to frontier in the areas covered by Doing Business (WB 2012, p. 3).

5. Structural deficiencies

In the last two chapters we proceeded to an analysis of the components of the competitiveness and business environment in Russia. We can assume that the pillars of the GCI and the indicators of the EDB index belong to a micro-level perspective of the domestic economy describing with details what goes right and what goes wrong. It would be insightful to change our perspective and examine some macro-level characteristics of the Russian economy. Fundamental weaknesses would be then revealed and a deeper comprehension of the economic profile of the country would be feasible. The most influential structural deficiencies of the Russian economy are elaborated below:

Corruption

According to experts, corruption is the most problematic factor for doing business in Russia (WEF 2013a, p. 326). The data from Transparency International (2012) seem to confirm in a way this statement, since Russia is ranked in the 133th place among 176 countries. Corruption in Russia is rampant, it can be met almost everywhere. In the transactions with high and low officials of the bureaucracy, in the streets where someone might find himself stopped by the police and asked to pay a bribe in order not to get a fine, in the SMEs where employees are paid in separate envelopes¹⁴ their official and their unofficial salary so as to avoid taxation, in banks, in courthouses. Corruption seems to be an inextricable element of the whole system.

The causes of the high level of corruption in Russia are numerous. First of all, there is a strong tradition of corruption in the country, which extends back to the distant past. Secondly, there is an obvious democratic deficit, the legislative and the judicial powers are weak, the freedom of press is restricted, and the political system of

¹⁴ The system was initially introduced by Stalin to award loyalty.

Russia resembles an autocracy. Another reason is the centralized administrative structure of the state; the power is accumulated in very few hands and an embrace of the state with business is promoted. Finally, the dependency of the country on natural resources is another factor fostering corruption.

Irrespective of the causes, corruption constitutes a heavy burden for the economy hurting the competitiveness and destroying the business environment. All the processes become more expensive and time-consuming, relations of political and economic dependency are cultivated, money is wasted in non-productive ways. Moreover, the existence of corruption deters investments and keeps away the FDI. Generally, the economy malfunctions and there is a deficit of efficiency.

Judicial system

The judicial system in Russia is highly inefficient mainly due to rampant corruption. In an interview in *Izvestia* on the 25th October 2004, Valery Zorkin, Constitutional Court Chairman, made the following impressive declaration: “Bribe-taking in the courts has become one of the biggest corruption markets in Russia” (Weill 2008). A poll taking place in 2007 showed that 40% of the Russians did not believe that Russia was a law-governed country (30% believed it was) and 38% did not trust the judiciary (26% trusted it). According to Boris Jordan, a known investment banker in Moscow “Probably the single biggest thing that business in Russia today suffers from is that you can’t really expect to get a proper court hearing” (Lucas 2008, p. 93).

A notorious case indicative of the deep-rooted corruption in the judicial system is this of attorney Sergei Magnitsky. After unveiling a large scandal of corruption while defending Hermitage Capital Management, he was imprisoned where he died after 358 days of detention.

Perhaps the most problematic part of the Russian judicial system is the fortified role of the prosecutors. The prosecutors’ service is a relic from the stalinist era. There seem to be no bounds restricting their power, they have the right to freeze bank accounts, imprison, intimidate witnesses, defense lawyers¹⁵ even judges. Their power is alarmingly significant, effectively functioning as the big hand of the state harassing justice.

Property rights

During the chaos that prevailed in the first years of the transition period, many businessmen managed to obtain large sums of capital using not always legal methods. Since the legality of their methods was often in question, their property rights, even now, depend on the good will of the state officials. In such an uncertain environment, the only choice of the economic actors is to stay as close as possible to the political power and especially to the head of the state. Thus a corrupted relation is created among political and economic actors (Wenger 2006, p. 28-29).

Banking system

In Russia there is a big number of small banks; this segmentation of the banking system makes it inefficient. Apart from this, the Russian banking sector is also characterized by high level of corruption. Despite the efforts of Central Bank of Russia (CBR), not only the ownership structures of the Russian banks, but also many

¹⁵ The two most notorious cases of defense lawyer harassment were these of Boris Kuznetsov and Karinna Moskalenko. The former represented, among others, Politovskaya family and relatives of the crew of Kursk, whereas the latter was the defense lawyer of Khodorkovsky (Lucas 2008, p. 94).

of their activities are suspect. Real owners are often hidden behind offshore companies and networks of shareholders. A survey conducted by International Finance Corporation in 2003 demonstrated that half of the banks did not disclose their real owner. In addition to this, the Russian banks usually operate to their owners' convenience and are often engaged in criminal activities (Wenger 2006, p. 177).

A secondary repercussion of corruption in the function of the financial sector is the fact that it discourages banks from lending (Weill 2008). Greater corruption adds to uncertainty of judicial decisions for banks, which are afraid that they will not be able to enforce damages recoveries against defaulting borrowers. As a result, the willingness of banks to grant loans is diminished. The low level of domestic credit to GDP is indicative. In 2005 it was equal to 25.7% compared to a world average 55.8% (EBRD 2006). Because of the aforementioned situation, borrowers tend to bribe bank officials to enhance their chances of obtaining a loan, thus corruption propagates. Generally it hinders lending to individuals and firms and it favors loans to government.

Resource curse

The steep rise in the price of hydrocarbons has played a vital role in the economic prosperity of the country in the last decade, and boosted it to escape from fiscal problems that faced in the 1990's. This is the good part of the story, the bad being what the political scientists call resource curse (Ross 1999). With the only exception of Norway, which was already a developed capitalist country when it started to exploit oil and gas, all the countries that their economy is based on raw material exportation present serious functional problems. Their economy loses competitiveness and becomes dependent on the fluctuation of the prices globally, some parts of the economy become atrophic, and corruption thrives, as big profits are accumulated in the hands of few high officials and politicians. Russia is a classical instance of resource curse country. The problem in such cases is that the country is gradually transforming to a rent-seeking organism and it is very difficult to escape from this vicious circle, as the elites of the country are those who reap the most fruits of this situation. An additional problem is the so-called Dutch disease, which refers to the loss of competitiveness of the manufacturing sectors caused by the appreciation of the exchange rate due to rising resource exports (WEF 2011, p. 17).

6. Policy recommendations

The Russian economy appears to have three main assets on which it can be based aiming at a brighter economic future (WEF 2011, p. 17, 20). The first comparative advantage is natural resources, which provide huge revenues for the country. These revenues constitute a major pillar of the economy propping up the economic development. Furthermore, the domain of natural resources can attract new investments. The second asset is the magnitude of the domestic market size. Large markets not only enable the creation of economies of scale, but moreover attract FDI, which is known to have many positive spillover effects to the local economy. Finally, the third comparative advantage is the highly educated population. Russia has one of the best educated populations in the world, which is a heritage from the Soviet educational policy. The problem is that Russia is still unable to take advantage of the human capital she produces, because many scientists prefer to leave the country and search their fortune abroad.

Regarding the future, WEF (2011, p. 24-58) identifies 5 challenges which should constitute the strategic economic targets of the country:

a) Improvement of the inefficient and corrupt institutional framework.

The institutional framework is the biggest challenge, as it is one of the main culprits of the predominant ill situation (WEF 2011, p. 24-29). The property rights for physical, financial, and intellectual property should be clearly defined. Furthermore, nepotism, cronyism, undue influence, and corruption should be tackled. Another issue that needs to be met is the existence of numerous -sometimes contradictory- regulations, which create an additional burden to the economy. Also, the inefficient judicial system ought to be reformed.

b) Improvement of the quality of education.

Russia is in danger to lose one of the three key advantages, namely the highly educated population (WEF 2011, p. 29, 31). In the last years, the quality of education in Russia has deteriorated following the opposite direction to the quality of education in other rapidly developing economies, such as India, China, or Brazil. The problem is more evident in mathematics and science, which had been a traditional strength of the Russian educational system. In addition to this, brain drain becomes more and more an acute problem.

c) Stop stifling competition.

The inefficiency of the markets is one of the most important problems faced by the country (WEF 2011, p. 31, 36, 42, 47). The markets are controlled by a small number of firms and the competition is weak, state enterprises have a dominant role in the economy being heavily favored by the state itself, the government intervenes to a large extent in markets via price control, the rates of entry and exit of firms in the market are low due to administrative barriers, the corporate taxation is high functioning as a counterincentive for investments, trade barriers prevent foreign competition, and the FDI is restricted because of regulation barriers. If the aforementioned issues are arranged, the competitiveness and the business climate of the country will swiftly improve.

d) Consolidation of the financial market.

The financial sector plays a very sensitive role in the function of an economy, since it provides capital for business investments. However, in Russia the financial system is weak and does not fulfill its role (WEF 2011, p. 47, 48, 51, 52). There is an urgent need for the banking sector to become more stable, healthy, and efficient. Moreover, it should become easier for enterprises -especially the small ones- to have access to finance. A substantial part of the banking system should also pass to the private sector in order to reinforce the competition of the lending institutions.

e) Promotion of sophisticated business techniques.

Russia ought to try to produce more high-value added goods instead of being restricted to the exploitation of natural resources. The development of clusters should also be encouraged in order to take advantage of the positive spillover effects they produce. The upgrade of the country's business schools would help a lot toward the direction of obtaining a more sophisticated economy (WEF 2011, p.52, 55, 57).

7. Conclusions

After the collapse of the second world, Russia had an extremely harsh time in the decade of the 90's. Successive secessions of ex-soviet territories were taking place, the economy was completely devastated, the national wealth was looted, the life expectancy nosedived. The culmination of the crisis came with the bankruptcy of 1998. The turning point for the country was unequivocally when Vladimir Putin came to power, in 2000. Propped up by the steep rise of the price of oil¹⁶, he managed to consolidate the position of the country. Putin's imperious way of governing was a historical necessity, the need for political stability was the absolute priority at the time.

As a result, in the first decade of the century little effort was spent in the amelioration of the economic indexes. Actually, the way the country was run hampered its own economic development. Russia fell behind in competitiveness and in the quality of the business environment and did not manage to keep pace with other ex-communist countries, despite the huge revenues from oil and gas (or perhaps partly because of them).

But now Russia finds herself at a crossroad. Not only has she to decide about her future economic model, but moreover the clock is ticking and the conditions are pressing for quick actions. Centralized political and administrative power might have been advantageous in the recent past, but now they constitute an insurmountable obstacle. In addition to this, Russia's fiscal dependence on energy revenues render her economic future precarious (WEF 2013b, p.19-20). The prospective shale gas exploitation and the increased supplies of oil from various sources are going to upset the status quo in the global energy market and potentially hurt the revenues of the country. In order to avoid uncomfortable situations Russia has to overhaul her general policy and set new strategic targets. From the political point of view she has to step away from the centralized political system with the omnipotent President of the Federation, while from the economic point of view she has to open toward liberal reforms. She should also invest the revenues from the natural resources, so as to develop other parts of the economy, instead of feeding the rent-seeking political and economic elites. Above all, there is an urgent need to tackle corruption by any means.

The biggest hurdle hampering the country to follow the liberal way seems to be the political will. The rulers of the country -especially Vladimir Putin- are possessed by the fear of liberalism. The daunting "ghost of perestroika" is still in the air burying every liberal trend and postponing every attempt for a change. Back in the 90's, Mikhail Gorbachev felt the historical need for change, opened the gates and the flood came in with disastrous effects. The political elites now fear for the possibility of the same story happening again and act abruptly patching the system here and there whenever the pressure becomes intense. Thus, every time some time is gained, but eventually the problem is not solved. It comes to the surface again and again and someday it should be addressed. When? The sooner the better.

¹⁶ The price of crude oil from 13 dollars per barrel in 1998 skyrocketed to more than 100 dollars per barrel in 2008.

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