Where to Do Business in Russia?

- A Report on Russian Regions, Firms, Foreign Trade and Investment Flows

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EXECUTIVE SUMMARY

Russia's foreign trade has doubled since 1992, but the trade structure has remained unchanged. Russia is still an energy and natural resource provider in the world economy. In order to change the situation, *the Russian government should support the enterprises' innovation activity.* Russia should attract more foreign investment, since innovation processes are often very long, and hence, extremely capital-intensive. Moreover, *the building of Russia's country image as a modern technology producer would take decades without the image and brands of widely recognised Western corporations*.

At the moment, *Russia is Finland's largest import origin* with over 14% and the fifth biggest export destination. *Russia may become our main foreign trade partner already by the end of this decade*.

The foreign direct investment (FDI) inflow into Russia grew by almost 70% in 2003. The enlarged EU accounts for over 50% of Russia's inward FDI stock. The Finnish companies have invested some $ 1.5 billion in Russia, and *our companies' investments into Russia are growing at rapid pace*.

Investments from Russia abroad are growing. The EU25 has attracted a half of the Russian outward FDI stock. The Russian energy-related companies are behind the majority of the outward investment, but also corporations in other industries are following the footsteps of the energy firms. Most probably, *a handful of Russian corporations can be found among the world's 100 most transnational companies already by the end of this decade*.

The WTO membership, which Russia may obtain already during Putin's presidency, would enhance the country's economic reform. The membership would increase enterprise competition in Russia, thus leading to new more efficient practices within enterprises. Here, one has to stress that the companies do not change if they are not force to do so. *Increasing competition and higher energy prices would be the most appropriate way to force the Russian companies to reform themselves. A change-forcing shock therapy with an acceptable number of bankruptcies is a better alternative than the gradual decay of competitiveness throughout the whole enterprise sector*.

One of the biggest weaknesses of the Russian enterprise sector is a low number of small and medium-sized production units. As the small and medium enterprises create flexibility in production and generate stability in society, they should receive more attention in policy-making. Should reformist ideology remain in Russia's economic policy, it will result in a considerable increase in medium-scale production activities already in the 2010s.

In a large country, such as Russia, policies supporting building of regional centres should be developed. *Russia's 11 regional million-cities may provide a good starting point in developing a network of competitive regional centres. The state support for the development of regional science parks and innovation centres would enhance this process*.

1 INTRODUCTION

Russia with her 145-million population, extensive natural resources and rapidly growing economy has become an attractive business target both for foreign companies interested in selling/producing their goods in Russia and for companies interested in buying natural resources from Russia. Despite numerous opportunities Russia provides, foreign direct investment inflow has remained below expectations. A lack of reliable information on regional opportunities together with Russia's complex business environment and various political surprises has kept many potential investors outside the country.

This report aims at familiarising a reader with the business development in Russia's 89 regions, and by doing so the research aids a foreign company in finding an optimal location for its business in Russia. Even if it may seem difficult to decide where to start business in geographically wide Russia (her territory is some four times that of the EU25), the authors hope that by reading this study a foreign company may avoid unnecessary travels in Russian regions, and thus, save a lot of precious time.

This report is divided into five main parts. Chapter 2 introduces a reader with the Russian regions. Chapter 3 describes Russia's enterprise sector and gives an overview on the country's 100 largest corporations. Chapter 4 analyses Russia's foreign trade. Chapter 5 deals with investment flows to and from Russia. Chapter 6 aims at providing a future view of Russia's business development until 2020.

Three perspectives dominate all the analytical work made in this report. First, this study analyse Russian regions from a firm's point of view i.e. the authors do not only analyse the macroeconomic development in the Russian regions but concentrate on the business level analysis. Second, the report has been designed to aid a foreign company, particularly a Finnish one, in its attempt to locate its business in some of Russia's 89 regions. Third, the report focuses on North-Western Russia, since the majority of Finnish businesses have started their operations there.

In the contemporary world a reader has less time to concentrate on reading long reports, therefore the authors decided to make this report as compact as possible. In order to do this, a lot of valuable information has been squeezed in numerous tables and maps. As business conditions in Russian regions may change rapidly, the goal of the Pan-European Institute is to provide a reader with an annual update on the Russian regions. These updates can be found on the homepage of the Institute (www.tukkk.fi/pei/e), where we offer also other monitoring reports and studies concerning Russia and the Baltic Sea Rim free of charge.

Kari Liuhto is responsible for the Chapters 3.3, 4, 5.2 and 6, Elina Pelto wrote Chapters 2 and 5.1, and Kirsi Lipponen prepared Chapters 3.1 and 3.2 and took care of the final editing of the report.

Turku, 31st of May 2004

Kari Liuhto, Elina Pelto and Kirsi Lipponen

2 RUSSIAN REGIONS

2.1 Russian Regional Structure

The federal structure of Russia is anything but simple. Russian Federation consists of 89 administrative regions or 'federal subjects' as the official term goes. However, these subjects are not equal in status, nor is there comparable information on all of them. The 89 subjects consist of 21 autonomous republics, six krais (provinces), 49 oblasts (regions), two cities of federal status, one autonomous oblast and ten autonomous okrugs (districts). Autonomous republics, autonomous okrugs and autonomous oblast are ethnically defined while krais and oblasts are defined on territorial bases. (Hanson – Bradsaw 1999.)

The following grouping and short descriptions of different administrative units aims at making the matter a bit more understandable (see Ahjokivi 1998):

- **Republic** is an administrative unit formed by notably large ethnic group that gives the name for the republic, as Tatars in Tatarstan Republic. However, in many republics ethnic Russians are majority, for example in Karelia Republic.
- **Krai** is a vast administrative unit often situated in sparsely inhabited eastern or southern parts of the Russian Federation.
- **Oblast** is a relatively homogenous and self-supporting region that is usually named after the centre of the region, for example Novgorod oblast.
- **Autonomous oblast and okrugs** are lower level administrative areas that to some extent function as a part of a bigger federal subject. Autonomous oblasts and okrugs are usually remote, backward and sparsely populated territories.
- **Federal cities** refer to the two biggest cities, namely Moscow and St. Petersburg that have distinct federal status.

In some statistics the federal cities are included in the figures of the surrounding oblasts. Also many regional statistics do not cover autonomous oblast or okrugs separately, so here too, they are often considered as parts of a larger region. In this paper, however, all these differently named federal subjects are often simply called "regions", although the actual Russian names (e.g. oblast, krai, okrug) are also used.

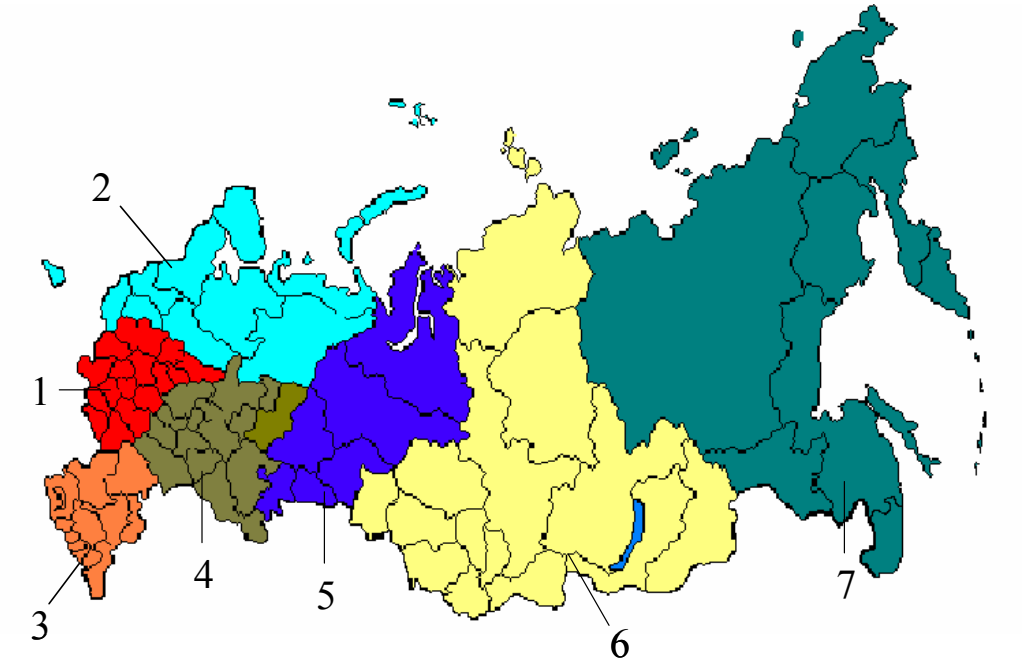
The 89 Russian regions form seven larger administrative areas called Federal Districts. These are: **1) Central, 2) North-Western, 3) Southern, 4) Volga, 5) Ural, 6) Siberian, and 7) Far Eastern Federal Districts.** The area, population, population density and the share of urban population in the federal districts are presented in **t**he following table. The locations of the federal districts are illustrated on Map 1. (See Appendix 6 for the administrative division of Russia.)

Table 1. Area and population of Russian Federal Districts

Federal District	Area (1000 km²)	% of total	Population (mil.)	% of total	Population density (person/km²)	Share of urban population (%)
1. Central	651	3.8	38.0	26.2	58.3	79.9
2. North-Western	1 678	9.8	14.0	9.6	8.3	82.3
3. Southern	589	3.4	22.1	15.8	38.9	57.5
4. Volga	1 038	6.1	31.2	21.4	30.0	70.8
5. Ural	1 789	10.5	12.4	8.5	6.9	80.7
6. Siberian	5 115	30.0	20.1	13.8	3.9	71.1
7. Far Eastern	6 216	36.4	6.7	4.6	1.1	75.9
Total	**17 075**	**100**	**145**	**100**	**8.5**	**73.3**

Sources: Goskomstat 2003; 2004.

Map 1. Russian Federal Districts



The Far Eastern and Siberian Federal Districts together make up about 66% of the Russian territory, but less than 20% of the total population. The population density is highest in the Central Federal District, where over a quarter of the total Russian population lives. Moscow is the centre of the Central Federal District and alone has a population of about 10 million. Together with Moscow oblast the population of the capital region reaches over 16 million. Next highest population density is in Southern and Volga Federal Districts, whereas the North-Western Federal District has the population density close to the Russian average. The city of St. Petersburg with its 4.7 million inhabitants makes up over a third of the total population of North-Western Federal District. (Goskomstat 2003.)

Thus, the Russian population is extremely unevenly distributed over the vast country. In fact, practically only one third of the total area is inhabited and used for economic purposes common for industrial society. Outside these areas lies uninhabited wilderness used by the numerous indigenous peoples of the Russian Federation. If to take into account only the populated area, the population density of Russian Federation reaches about 28 person / km². (Helanterä – Tynkkynen 2003.)

Despite of her large territory, the share of urban population in Russia is high, 73%. Only in Southern Federal District, where agriculture is an important sector of economy, the share of urban population is notably less than the Russian average, namely 58%. In all other federal districts the share of urban population is over 70%. Peculiarity of Russian urban population division is the unusually prominent role of big cities: over half of Russian population lives in the cities bigger than 100 000 inhabitants, and 70% of urban population lives in big cities. Middle-sized cities on the other hand, are relatively few in Russia: only 12% of urban population lives in middle-sized cities with 50 000 – 100 000 inhabitants. (Helanterä – Tynkkynen 2003.) In Russia it is typical that big cities located far from each other, have only very few middle-sized cities between them. Thus, the western type of city hierarchy does not exist in Russia. Furthermore, Russian cities do not have network type of connections between each other, but rather form linear links often by major railway routes.

2.2 Russian Regions as Sales Targets

The fact that the Russian population lives in big cities that are far away from each other and surrounded by vast sparsely populated areas, often with poor transportation connections between the cities, makes an extensive distribution in Russia challenging. On the other hand, several cities with over million inhabitants offer market potential for many companies. In addition to the two federal cities, Moscow and St. Petersburg, there are 11 other cities that have population of one million or more, and 20 more cities with a population of more than half a million.

The Russian million-cities and their population are listed in the following Table 2 and illustrated in Map 2. In Table 2, the regions surrounding the million-cities are listed by the size of the million cities within them, and million-cities are listed bellow the surrounding regions in italic. Table 2 gives information on the regional population, gross regional product (GRP), income level and retail trade.

Table 2. Russian regions with million cities, their population, GDP/GRP, income level and retail trade volume[1]

	Fed. distr.	Popul. (1000)	Urban popul. (%)	GDP per capita (USD)	Income level			Retail trade		
					Average (USD)	Ranking in Russia	Gini coefficient	Volume (million USD)	Per capita (USD)	Growth index
RUSSIA		**145164**	**73**	**1901**	**139**		**0.398**	**131378**	**905**	**109**
Moscow obl.	Centr	6619	79	1444	127	20	0.345	5383	813	112
Moscow	*Centr*	*10383*	*100*	*6577*	*522*	*1*	*0.609*	*36216*	*3488*	*103*
Leningrad obl.	NW	1669	66	1696	85	55	0.304	933	559	109
St. Petersburg	*NW*	*4661*	*100*	*2076*	*160*	*10*	*0.347*	*4876*	*1046*	*109*
Novosibirsk obl.	Sib	2692	75	1368	102	37	0.349	2380	884	119
Novosibirsk		*1425*								
Nizhny Novgorod obl.	Volga	3524	78	1626	111	25	0.343	2617	742	115
Nizhny Novgorod		*1311*								
Svedrlovsk obl.	Ural	4486	88	1646	137	16	0.356	3770	840	121
Ekaterinburg		*1293*								
Samara obl.	Ural	3240	81	2183	148	13	0.424	4473	1381	106
Samara		*1158*								
Omsk obl.	Sib	2079	69	1139	111	26	0.362	1463	704	124
Omsk		*1133*								
Tatarstan rep.	Volga	3779	74	2026	114	24	0.374	2610	691	107
Kazan		*1105*								
Chelyabinsk obl.	Ural	3604	82	1454	108	29	0.350	2336	648	113
Chelyabinsk		*1078*								
Rostov obl.	South	4404	68	1014	109	28	0.364	3568	810	110
Rostov on Don		*1070*								
Bashkortostan rep.	Volga	4104	64	1589	110	27	0.368	2872	700	113
Ufa		*1042*								
Volgograd obl.	South	2699	75	1196	106	31	0.328	1757	651	114
Volgograd		*1012*								
Perm obl.	Volga	2820	75	2211	140	14	0.397	2385	846	111
Perm		*1000*								

Sources: Goskomstat 2003; 2004.

As can be seen on the table, the wealthiest regions of those in the table measured by the GRP per capita are Moscow city, Perm oblast, Samara oblast, St. Petersburg, and Tatarstan republic, that all have GRP per capita over $ 2000. Highest average income level of the regions with a million-city can be found in Moscow city, where the average income level is significantly higher than in the other regions in the table. In income level ranking, Moscow is naturally number one in Russia, followed by regions that have rich natural resources[2]. The next best region in average income level ranking among the million-city regions is St. Petersburg on 10th place. As most of the top 10 regions in average income level ranking are sparsely inhabited regions with rich natural resources, the average income level tells little about the sales potential of the region.

Gini coefficient index indicates the degree of inequality in income distribution: the smaller the figure, then more even income distribution. Here too, Moscow differs from the other regions considerably with Gini index of 0.6. Other regions on the table are close to Russian average (0.4). For comparison, in the Nordic countries Gini coefficient ranges between 0.25 and 0.30 (in Finland 0.25), while the average for Latin America is estimated at 0.58. (PAHO 2004.) Thus, in Russia, and especially in Moscow, the income differences of the population are high.

[1] The Russian rouble has been converted into US dollars by using the exchange rate 1 RUR = 0.035 USD throughout the document.

[2] The top 10 regions by the average income are: 1) Moscow city, 2) Chukchi autonomous okrug, 3) Tyumen oblast, 4) Sahka republic, 5) Komi republic, 6) Kamtchatka oblast, 7) Magadan oblast, 8) Sahkalin oblast, and 10) St. Petersburg.

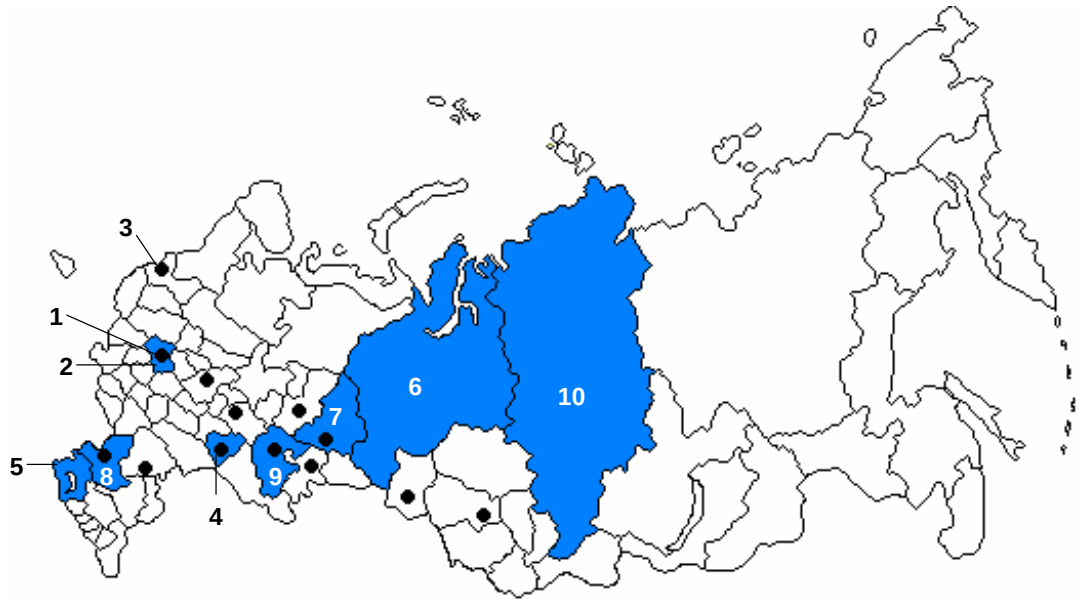
Probably the best indicator determining the sales potential of the regions is the volume of retail trade. The top 10 regions with highest retail trade volume listed in Table 3 are marked in the following map that also shows the locations of Russian million-cities. The regions are numbered by the retail trade volume ranking as follows: 1) Moscow city, 2) Moscow oblast, 3) St. Petersburg, 4) Samara oblast, 5) Krasnodar krai, 6) Tyumen oblast, 7) Sverdlovsk oblast, 8) Rostov oblast, 9) Bashkorstan republic, and 10) Krasnoyarsk krai.

Table 3. Regions with highest retail trade volume, 2002

	Fed. distr.	Popul. (1000)	GDP per capita (USD)	Retail trade			Household spending (% of incomes)			Consumer durables (per 100 housholds)		
				Volume (million USD)	Per capita (USD)	Share of food products	Food products	Other products	Services	TV	Video/ videoca mera	PC
RUSSIA		**145164**	**1901**	**131378**	**905**	**47**	**44**	**36**	**18**	**129**	**54**	**10**
Moscow	Centr	10383	6577	36216	3488	41	41	36	21	154	98	30
Moscow obl.	Centr	6619	1444	5383	813	44	50	30	20	146	76	18
St. Petersburg	NW	4661	2076	4876	1046	43	49	29	19	143	64	11
Samara obl.	Ural	3240	2183	4473	1381	45	40	41	17	135	65	12
Krasnodar krai	South	5125	1277	3847	751	48	44	37	17	113	49	4
Tyumen obl.	Ural	3265	8822	3838	1176	51	31	50	18	141	78	21
Svedrlovsk obl.	Ural	4486	1646	3770	840	51	46	34	17	129	51	10
Rostov obl.	South	4404	1014	3568	810	45	50	32	15	117	51	6
Bashkortostan rep.	Volga	4104	1589	2872	700	52	40	42	15	120	49	7
Krasnoyarsk krai	Siberian	2966	2766	2657	896	51	33	45	20	138	67	19

Sources: Goskomstat 2003; 2004.

Map 2. Regions with highest retail trade volume in 2002



As can been seen on the map, most of the regions are those surrounding million-cities. Only number 5) *Krasnodar krai*, number 6) *Tyumen oblast*, and number 10) *Krasnoyarsk krai* do not have million-cities in them. Krasnodar krai in Southern Federal District is the main sea gateway to the Russian Federation. The two ports by the Black Sea, Novorossiysk and Toapse are focused on exporting oil and gas products. The biggest city in the region, Krasnodar, has a population of over 600 000 people, and the second biggest city, Sochi (330 000) is a well known tourist resort. Total

population of the region is about five million, thus third largest after Moscow and Moscow oblast, which also explains the high retail trade volume. As the table indicates, retail trade volume per capita in Krasnodar krai is considerably lower than the Russian average.

Tyumen oblast in Ural Federal District is a major oil and gas resource base in Russia, and the richest region measured by GRP per capita. The region's population is over three million, of which approximately half a million lives in the capital Tyumen. On the contrary to Krasnodar krai, the retail trade volume per capita in Tyumen region is third highest in Russia after Moscow city and Samara oblast. Krasnoyarsk krai in Siberian FD is number 10 in retail trade volume ranking and number 11 in retail trade per capita ranking. The region has rich natural resources including nickel, coal, lead, copper, platinum, gold, as well as wood resources. The biggest city, Krasnoyarsk, has a population of 875 000.

Moscow city has clearly the highest standard of living, as the share of food products of total retail volume is lowest in there (41%), indicating that the population has more money to spend on other products than food. The leading role of Moscow can be seen also by the higher than average density of home computers. In Moscow there are 30 computers per 100 persons whereas the Russian average is 10. In general, the living standard seems to be lowest in the regions of Southern FD and in southern parts of Volga FD.

Despite of the country's many million-cities, foreign firms' market expansion to Russia starts usually from Moscow or from St. Petersburg. As an administrative and business capital the foreign trade turnover of Moscow is considerably higher than in other million-cities. The next biggest city, St. Petersburg, with its major port is quite naturally the second most vivid city for international trading. The fact that most of the Russian foreign trade takes place through Moscow and St. Petersburg makes the competition in them stronger than in other major cities. Thus, a foreign exporter or investor should also bear in mind the other major Russian cities. As Zashev (2004) claims, with their lower level of market competition, the other million-cities offer great opportunity for foreign companies to approach directly to their markets, that so far have been mostly served by Moscow and St. Petersburg companies. However, the advantages of lower level of competition may be scaled back by a greater level of risks and regional peculiarities, such as poorer infrastructure and lack of experience in international business of local firms. (Zashev 2004.) However, some foreign retail trade companies have already operation in regional million cities in addition to Moscow and St. Petersburg, e.g. Turkish Ramstor (Lorentz 2003) and IKEA that is actively expanding its operations to Russian million cities.

2.3 Natural Resources in Russian Regions

In addition to the market potential of 145 million consumers with growing income level, Russia is an attractive investment and business target not least for its natural resources. When measured by the natural resource deposits, Russia is the richest country in the world. Here we have a brief overview on Russian natural resources and on their geographical distribution over the Russian regions.

Russia's proven oil reserves make up approximately 5-10% of world total, and her natural gas reserves are the world's largest, more than twice the size of those of Iran, which has the next largest natural gas reserves. Majority of Russian oil and gas reserves are located in Western Siberia,

between the Ural Mountains and the Central Siberian Plateau. In addition to Western Siberia, the most significant oil and gas resources in use at the moment are located in Volga and Ural area and in Far East. The following table lists the most important oil and gas producer regions in Russia.

Table 4. Top 10 oil and gas producing regions in Russia, 2002

Rank	*Oil producing regions*	*Oil extraction, including gas condensate, (1000 tonnes)*	*Rank*	*Natural gas producing regions*	*Natural gas production, (million m³)*
	Russia	**379563**		**Russia**	**594912**
1	Tyumen oblast (Ural)	254165	1	Tyumen oblast (Ural)	539916
2	Tatarstan republic (Volga)	28716	2	Orenbug oblast (Volga)	23769
3	Orenburg oblast (Volga)	11454	3	Astrakhna oblast (South)	10891
4	Samara oblast (Volga)	11433	4	Tomsk oblast (Siberia)	4444
5	Bashkortostan rep. (Volga)	11383	5	Komi republic (NW)	3459
6	Tomsk oblast (Siberia)	10592	6	Krasnodar krai (South)	2679
7	Perm oblast (Volga)	9865	7	Sakhalin oblast (Far East)	1863
8	Komi republic (NW)	9568	8	Sakha republic (Far East)	1612
9	Udmurtia republic (Volga)	7793	9	Perm oblast (Volga)	863
10	Arkhangelsk oblast (NW)	5105	10	Tatarstan republic (Volga)	726

Source: Goskomstat 2003.

Number one oil and gas producing federal district of Russia is the Ural Federal District, where all oil and gas comes from Tyumen oblast, and especially from its autonomous okrugs of Khants and Mansis and Yamal Nenetses. Tyumen region accounts alone for 67% of Russian oil, and 91% of natural gas production. Second best Federal District in both oil and gas production is Volga FD, followed by North-Western FD in oil production and Southern FD in gas production. In oil production number four is Southern FD, number five Siberian, and number six far Eastern FD. In natural gas number four is Siberian FD, number five North-Western FD, and number six Far Eastern FD. In Central FD, there is no oil or gas production.

Russia holds the world's second largest coal reserves after the United States. In 2002, 78% of the extracted coal was mined in Siberian Federal District, where Kemerovo oblast was by far the leading coal mining region. Second most prominent coal mining federal district in Russia is the Far Eastern FD, where the extracted amount in 2002 was 12% of Russian total. The share of the third biggest coal mining federal districts, namely North-Western FD, was 5% of total Russian coal extraction.

In addition to fossil fuels, Russia has rich reserves of metals and minerals. Russia ranks as the world's third biggest producer of aluminium, accounting over 10% of world total aluminium production. Russia is also a major nickel, palladium and platinum producer, and has rich deposits of for example gold, silver, copper, cobalt, selenium, tellurium and diamonds. Russia with her prominent iron ore deposits ranks as fourth largest steel producer in the world, covering for 6-7% of world's total steel production in 2003. Most steel production takes place in Ural Federal District, followed by Central, North-Western and Siberian FDs. The following table lists the top 10 coal mining and steel melting regions in Russia.

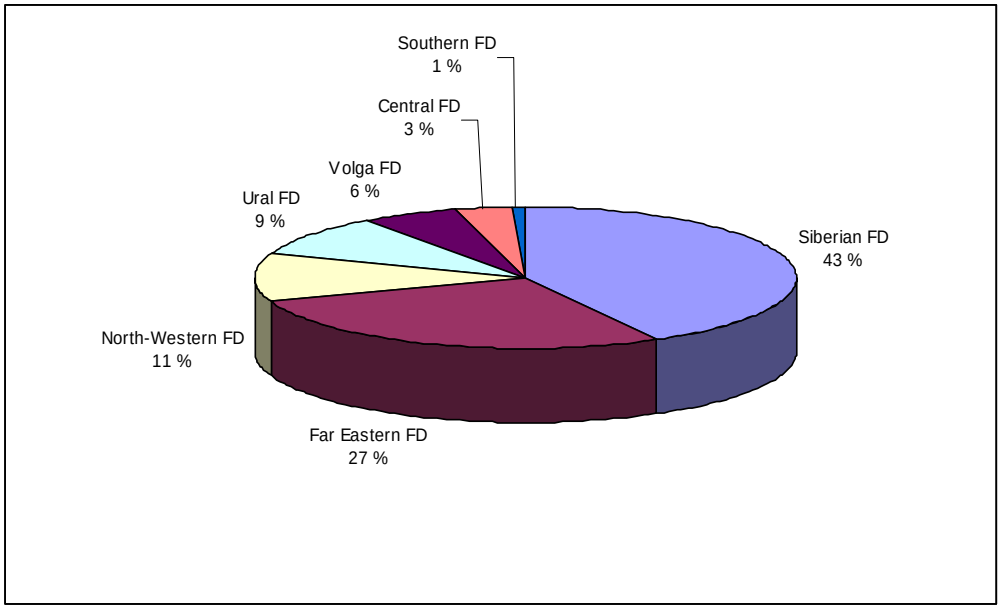
Table 5. Russian top 10 coal mining and steel producing regions in 2002

Rank	*Region*	*Coal extraction (1000 tonnes)*	*Rank*	*Region*	*Steel production (1000 tonnes)*
	Russia	**255754**		**Russia**	**59883**
1	Kemerovo oblast (Siberia)	131318	1	Chelyabinsk oblast (Ural)	16044
2	Kransoyarsk krai (Siberia)	33780	2	Vologda oblast (North-West)	9660
3	Komi republic (North-West)	13123	3	Lipetsk oblast (Central)	8568
4	Irkutsk krai (Siberian)	12049	4	Kemerovo oblast (Siberia)	8348
5	Primosk krai (Far East)	10752	5	Sverdlovsk oblast (Ural)	7070
6	Chita oblast (Siberia)	10495	6	Orenburg (Volga)	2969
7	Sakha republic (Far East)	9878	7	Belgorod oblast (Central)	2273
8	Rostov oblast (South)	8385	8	Volgograd oblast (South)	903
9	Khakassia republic (Siberia)	5896	9	Perm oblast (Volga)	622
10	Buryatia republic (Siberian)	3869	10	Rostov oblast (South)	598

Source: Goskomstat 2003.

Russia is the largest forest country in the world, which houses about 22% of the world's forests. For comparison, the next largest forest countries and their share of the world's forest cover are Brazil – 16%, Canada – 7% and USA – 6%. Some 70% of Russian forests lie behind the Ural Mountains in Siberian and Far Eastern Federal Districts. In the European part of Russia, most forests can be found in the North-Western FD, particularly in Arkhangelsk oblast and Komi republic. The following figure illustrates the distribution of Russian wood resources (total 74 322 million m³**)** over the federal districts, and Table 6 thereafter lists the top 20 wood regions.

Figure 1. Russian wood resources, distribution over federal districts in 1998 (% of total Russian wood resources)



Source: Goskomstat 2003.

Table 6. Regions with largest wood resources in Russia, 1998

Rank	*Region*	*Forest reserves (mil. m³)*	*Rank*	*Region*	*Forest reserves (mil. m³)*
1	Krasnoyarsk krai (Siberia)	11300	11	Buryatia republic (Siberia)	1976
2	Irkutsk oblast (Siberia)	9050	12	Primosk krai (Far East)	1771
3	Sakha republic (Far East)	8844	13	Sverdlovsk oblast (Ural)	1560
4	Khabarovsk krai (Far East)	5265	14	Kamchatka oblast (Far East)	1192
5	Tyumen oblast (Ural)	4912	15	Perm oblast (Volga)	1180
6	Komi republic (North-West)	2856	16	Chelyabinsk oblast (Ural)	1137
7	Tomsk oblast (Siberia)	2605	17	Tuva republic (Siberia)	1079
8	Chita oblast (Siberia)	2491	18	Vologda oblast (NW)	990
9	Arkhangelsk oblast (NW)	2162	19	Karelia republic (NW)	919
10	Amur oblast (Far East)	1992	20	Kirov oblast (Volga)	773

Source: Goskomstat 2003.

Thus, the regions with richest wood resources are those located in Siberian and Far Eastern Federal Districts. However, among the top 20, there are also regions from Ural, Volga and North-Western Federal Districts. Of the North-Western FD as many as four regions reach to the top 20 list. These are Komi republic, Arkhangelsk oblast, Vologda oblast, and Karelia republic which are also important regions for wood procurement of Finnish forest industry companies.

The following table presents the regions with highest industrial production volume. Here the oil and gas region Tyumen is by far the best performer. As the table shows, Tyumen industrial sector is strongly dominated by fuel industry (87% of industrial production), which is also the most important branch in many Volga FD's regions, like Perm oblast, and Tatarstan and Bashkortostan republics. As the table indicates, the metallurgy is an important industrial branch in the regions of Siberian FD, e.g. in Krasnoyarsk (73%), and in many regions of Ural FD. Machinery is the dominating branch in many regions of Volga FD, such as in Samara oblast (59%) and in Nizhny Novgorod region (43%). For both Federal cities, Moscow and St. Petersburg, machinery and food industry are the most important sectors of industry.

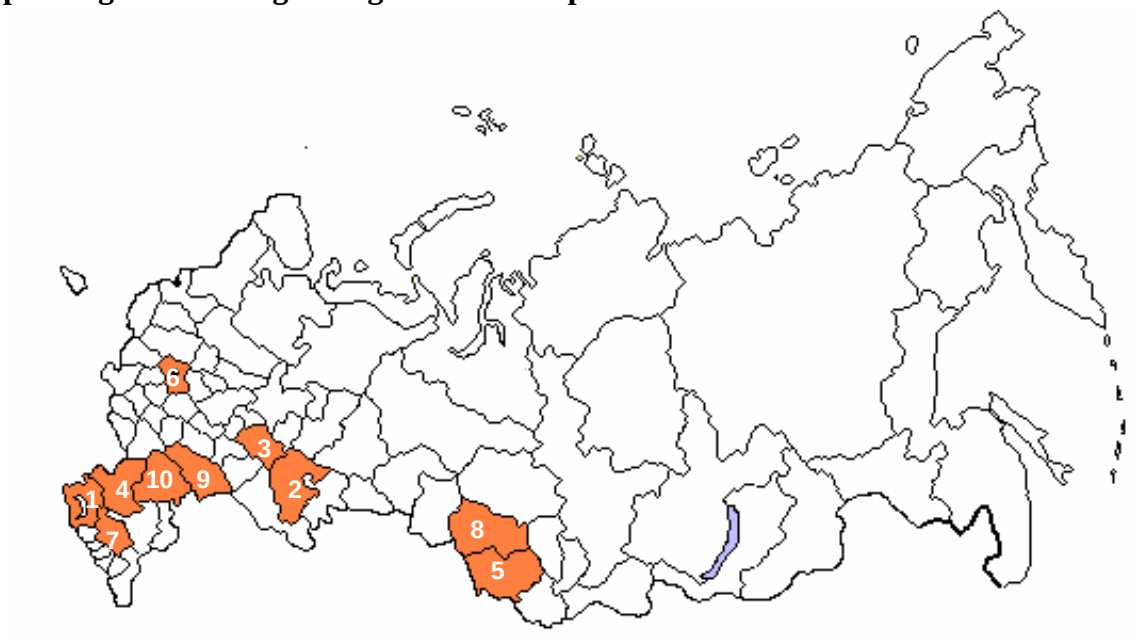
As the following table indicates, no regions from the Southern Federal District are among the most industrialised regions of Russia. In many region of the Southern Federal District, agriculture is an important sector of economy. Map 3 shows the regions with highest agricultural output in 2002.

Table 7. The most industrialised regions in Russian Federation, 2002

	Fed. district	Popul. (1000)	Urban popul. (%)	GDP per capita (USD)	Income level ranking in Russia	Industrial production			Main industrial branches (%)						
						Volume (million USD)	Per capita	Growth index	Machinery	Food	Forest	Metallurgy	Fuel	Power	Chemistry
RUSSIA		**145164**	**73**	**1901**		**240380**	**1656**	**104**							
Tyumen obl.	Ural	3265	77	8822	3	23670	7249	104					**87**		
Yaroslavl obl.	Centr	1368	81	1782	23	14009	10240	103	32	17					22
Sverdlovsk obl.	Ural	4486	88	1646	16	8791	1960	104	20			**49**		11	
Samara obl.	Volga	3240	81	2183	13	8453	2609	98	**59**						11
Moscow obl.	Centr	6619	79	1444	20	8327	1258	106	**29**	22					
Tatarstan rep.	Volga	3779	74	2026	24	8255	2184	101	25				36		19
St. Petersburg	NW	4661	100	2076	10	7803	1674	131	**36**	**35**					
Chelyabinsk obl.	Ural	3604	82	1454	29	6867	1905	102	19			**58**			
Krasnoyarsk krai	Sib	2966	53	2766	12	6766	2281	107				**73**			
Bashkortostan rep.	Volga	4104	64	1589	27	5691	1387	103	14				**39**	10	17
Nizhny Novgorod obl.	Volga	3524	78	1626	25	5678	1611	106	**43**	12		11			
Perm obl.	Volga	2820	75	2211	14	5482	1944	100	14			10	**26**	11	19
Kemerovo obl.	Sib	2899	87	1376	15	5121	1767	99				**35**	**33**	13	
Irkutsk obl.	Sib	2582	79	1633	21	4177	1618	107	13		22	**29**		11	
Vologda obl.	NW	1270	69	1865	22	3649	2873	104				**58**			10

Sources: Goskomstat 2003; 2004.

Map 3. Regions with highest agricultural output in 2002



1. Krasnodarsk krai (Southern FD)
2. Bashkortostan rep. (Volga FD)
3. Tatarstan rep. (Volga FD)
4. Rostov oblast (Southern FD)
5. Altai krai (Siberian FD)
6. Moscow oblast (Central FD)
7. Stavropol krai (Southern FD)
8. Novosibirsk oblast (Siberian FD)
9. Saratov oblast (Volga FD)
10. Volgograd oblast (Southern FD)

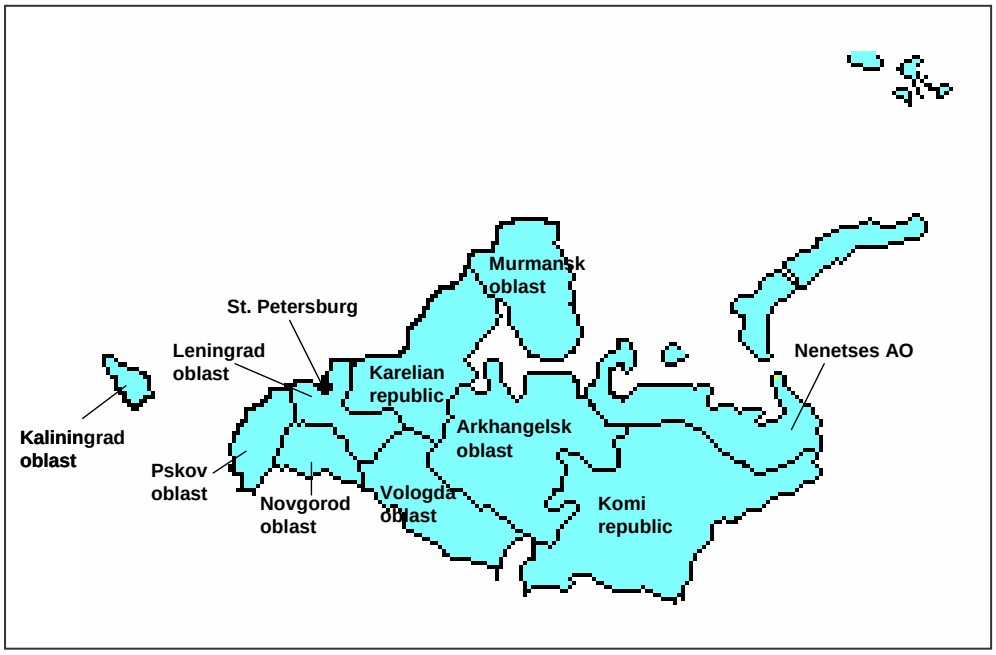
Source: Goskomstat 2003.

As the map illustrates, agriculture is important also for many regions in Volga and Siberian federal districts. Quite surprisingly, the sixth highest agricultural output in 2002 was found in Moscow oblast.

2.4 General Characteristics of the Regions in North-Western Federal District

As Finnish companies' operations in Russia are often concentrated either in Moscow or in the near-by regions of the North-Western Federal District, this chapter takes a closer look at the general characteristics of the regions in North-Western Federal District.

Map 4. Regions of the North-Western Federal District



North-Western Federal District consists of 11 federal subjects illustrated in the map above. These are Karelia and Komi republics, Kaliningrad, Pskov, Leningrad, Novgorod, Murmansk and Arkhangelsk oblasts, the last-mentioned of which contains the autonomous oblast of the Nenetses, and the city of St. Petersburg.

As Table 8 indicates, the federal district has a population of almost 14 million, approximately one third of which live in the city of St. Petersburg. The second most populated region is the surrounding Leningrad oblast with roughly 1.7 million inhabitants. Together St. Petersburg and Leningrad oblast make up a market of 6.3 million consumers. The share of urban population in the federal district is higher than the Russian average, thus over 80%. Lowest share of urban population can be found in Pskov and Leningrad oblasts and in Nenetses' autonomous oblast.

The wealthiest regions of North-Western Federal Districts measured by the gross regional product per capita are Komi republic, Murmansk oblast, and St. Petersburg that all exceed the level of Russian average. The relatively high GRP per capital of Komi republic and Murmansk oblast can be explained by the rich natural resources of these regions. These three regions rank high also in the average income level comparison.

Table 8. Income level, retail trade and industrial production of the regions in North-Western Federal District, 2002

	Population (1000)	Urban population (%)	GDP per capita (USD)	Income level			Retail trade			Industrial production			Main industrial branches (%)						
				Average (USD)	Ranking in Russia	Gini coeff.	Volume (million USD)	Per capita	Growth index	Volume (million USD)	Per capita	Growth index	Machinery	Food	Forest	Metallurgy	Fuel	Power	Chemistry
RUSSIA	**145164**	**73**	**1901**	**139**		**0,398**	**131378**	**905**	**109**	**1184120**	**8157**	**104**							
North-Western FD	**13972**	**82**	**1842**	**137**			**12061**	**863**	**108**	**25030**	**1791**	**117**							
Karelia rep.	716	75	1568	135	18	0,331	607	848	120	1207	1685	103		14	**49**	13			
Komi rep.	1018	75	2767	201	5	0,411	1285	1263	108	2203	2164	98			19		**65**		
Arkhangelsk obl.	1336	75	1658	131	19	0,334	1029	771	108	1925	1441	101	16		**49**			10	
incl. Nenetsky AO	*42*	*63*	*n/a*	*270*	*n/a*	*0,419*	*38*	*903*	*104*	*421*	*10028*	*111*					***96***		
Vologda obl.	1270	69	1865	119	22	0,331	778	613	110	3649	2873	104				**68**			10
Kaliningrad obl.	955	78	1160	90	47	0,321	620	649	101	933	977	110	20	**30**	13		20		
Leningrad obl.	1669	66	1696	85	55	0,304	933	559	108	3338	2000	136		**24**	18		**20**		
Murmansk obl.	892	92	2137	194	8	0,364	1021	1145	102	2058	2307	98		19		**38**		18	17
Novgorod obl.	694	70	1361	104	36	0,352	471	678	106	992	1429	108	12	22	14				**30**
Pskov obl.	761	66	918	84	57	0,315	441	580	114	500	658	107	**32**	**29**				15	
St. Petersburg	4661	100	2076	160	10	0,347	4876	1046	109	7803	1674	131	**36**	**35**				10	

Sources: Goskomstat 2003; 2004.

The highest volume of retail trade is naturally in St. Petersburg. However, the per capita retail trade figures are higher in the two natural resource rich regions of Komi and Murmansk, and St. Petersburg is only on third place among the North-Western regions. The lowest retail trade volumes are in Leningrad, Pskov, Vologda and Kaliningrad oblasts.

Many of the regions in North-Western Russia have significant natural resources, as mentioned also in the previous chapter. For example, Komi republic ranks eighth in Russian oil extraction, fifth in gas production, third in coal extraction, and sixth in the amount of wood resources. As the table indicates, fuel industry is dominating the regions industry, followed by forest industry. Arkhangelsk oblast has oil reserves too, and it ranks tenth in oil extraction. Most of the oil in Arkhangelsk region is located in the autonomous oblast of the Nenetses, where fuel industry accounts for 96% of the industrial production. The most important industrial sector in Arkhangelsk oblast is forest industry, as the region has the eighth largest wood resources in Russia. Forest industry is also the leading industrial branch in Karelia republic that ranks 19th by the size of its wood resources. Vologda oblast is the second largest steel producer among Russian regions and metallurgy makes up 68% of the regions industrial production, but the region has also rich wood resources. Metallurgy is also the leading industry in Murmansk oblast, the natural resources of which include iron ore, nickel, copper, manganese, zinc, phosphate and mica.

The highest industrial production among the regions of North-Western Federal District is in St. Petersburg, where the strongest industry branches are machinery and food industry. By industrial production per capita, St. Petersburg is only on sixth place among the North-Western regions after Vologda, Murmansk, Komi, Leningrad and Karelian regions. The lowest industrial production volumes in North-Western Federal District are in Pskov and Kaliningrad oblasts.

3 RUSSIAN ENTERPRISES

Studying the Russian enterprises, one confronts several issues that need to be clarified and determined in detail, before carrying out an analysis on the enterprise sector. Statistical data, collected by different authorities and gathered from several sources, is subject to biases, which can lead to severe misinterpretations without taking cognisance of. The specifics of the Russian enterprise sector are described in Appendix 1.

3.1 Development of the Small Enterprise Sector in Russia

During the Soviet times, the small enterprises never played a crucial role in the Russian economy. On the contrary, excessive concentration and centralisation of production, labour and capital favoured gigantic firms, which became the norm in the Soviet economy. The social class of entrepreneurs was in many cases illegal and therefore insignificant. The first legislative act encouraging small entrepreneurship in the Soviet Union was passed only in 1986. This can be defined as the starting point of entrepreneurship in Russia. However, the main idea of the act was to support any non-state activity, and it supported more the entire private sector, than the small enterprises as such. (Radaev 2001; Russian SME Observatory 2002.)

Because of massive privatisation of the state property, the number of enterprises, both small and large, grew rapidly in the beginning of the 1990's. Most remarkable the growth was in 1992-1993, when it was driven by major macroeconomic changes. (Radaev 2001.) While the number of enterprises and organisations was only 288 thousand in 1990, in 1995 it was already 2.25 million. Today the number of enterprises and organisations is approximately 3.8 million. (Goskomstat 2003.) The growth of the enterprise sector in Russia in 1990-2002 is illustrated in Table 9. Ever since the privatisation began, the number of enterprises has been growing. Lately the growth rate has been around 7% per year.

Table 9 Enterprises and organisationsin Russia 1990-2002[3]

Number of enterprises and organisations (1000)	1990	1995	1996	1997	1998	1999	2000	2001	2002
RUSSIA	288	2250	2505	2727	2901	3106	3346	3594	3845
Share of the federal districts (% of total in Russia)									
Central FD	28	33	34	35	36	36	37	37	38
North-Western FD	10	11	11	11	11	12	12	12	12
Southern FD	14	15	14	14	14	13	13	12	12
Volga FD	21	16	16	16	15	15	15	15	15
Ural FD	7	8	8	8	7	7	7	7	7
Siberian FD	14	13	12	12	12	12	12	11	11
Far Eastern FD	6	5	5	5	5	4	4	4	4

Source: Goskomstat 2002; 2003.

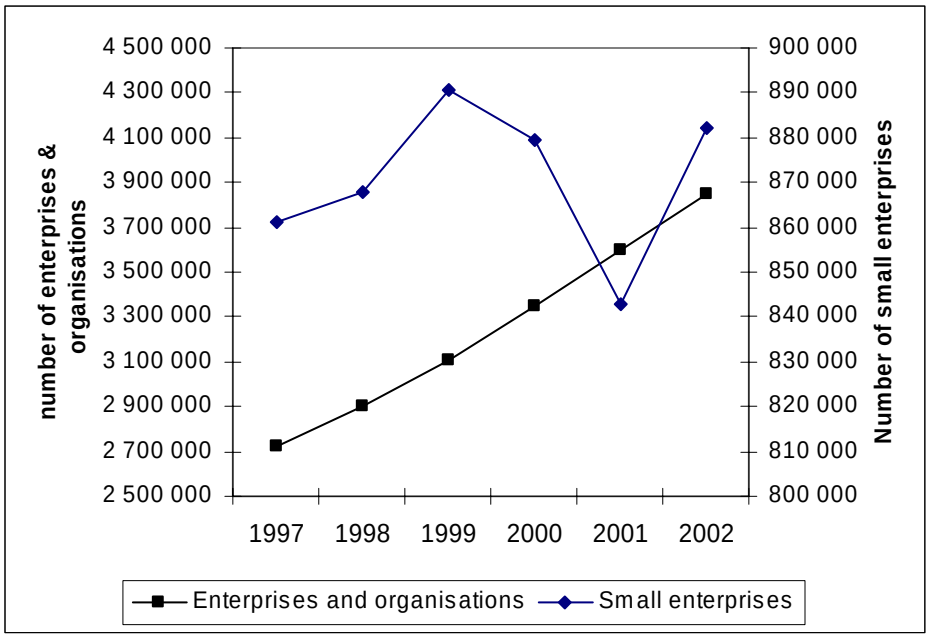
The table also shows changes in enterprise distribution by federal districts (FD) during the 12 years of transition. We notice, that the Central and North-Western FDs' share of total number of enterprises has grown, while all the other FDs' proportion has diminished. The growth of the two FDs can be assumed to stem from Moscow's and St. Petersburg's pull force. Their share of the federal districts' enterprises has grown from about 20% in 1990 to as much as 62% in Moscow and

[3] Goskomstat compiles statistics on 'enterprises and organisations' including both commercial and non-commercial organisations. The number of 'enterprises' is thus slightly smaller.

58% in St. Petersburg in 2002. The Russian enterprises seem to be concentrated in the largest cities, leaving the surrounding regions with almost nothing. Even if the statistics are not available for other big cities, the tendency can be expected to be similar.

In the beginning of the 1990's also the small enterprise (SE) sector[4] started to expand. The growth, however, slowed down soon, nearly stopping by the end of 1994 because of poor or non-existent support structure. In the late 1990's the small enterprises started to show some growth again. In 1998 the enterprise sector was severely clobbered by the August financial crisis. Simultaneously with other economic and financial difficulties, state support was cut, which meant hard times for small enterprises. (Radaev 2001.) The trends in small enterprise development in 1997-2002 are illustrated in Figure 2. Looking at the chart, the development of the small enterprise sector seems rather unstable. During the years the number of SEs has varied between 840,000 and 890,000. Biggest drop was observed in 2000-2001 (- 4.1%), and biggest growth a year after (4.7%).

Figure 2. Development of the enterprise sector in 1997-2002



Sources: MP 2003; Goskomstat 2003.

The figure shows also the growth tendency of all the enterprises and organisations from 1997 to 2002. In the figure it becomes evident that the small enterprises have not been able to keep up with medium and large enterprises. Growth of the SEs has been insignificant in comparison to the entire enterprise sector and the proportionate share of small enterprises has, in fact, diminished during the years. While the share of small enterprises was 32% in 1997, in 2002 it was only 23%.

Further, the figure tells that currently the number of small enterprises is increasing. However, the time period is too short to tell where the development will end up. The small enterprises still face serious obstacles that need to be solved, in order to create favourable conditions for SE development. Nowadays the importance of the small enterprises is recognised in Russia, and the small enterprises have become target for many regional development policies, which is a promising feature for the SE development in the country.

[4] According to the Russian legislation, small enterprises (SEs) are enterprises with less than 100 employees.

The Russian small business units are generally divided into three categories; registered small enterprises with judicial form (SEs), individual entrepreneurs without legal status (IEs) and farm enterprises. This study examines the two above mentioned groups, excluding the farm enterprises, whose significance is considered to be rather small mainly due to their limited number.

Because of data available, the analyses of the Russian small business are often restricted to the group of registered small enterprises. It is indeed disputable, whether the IEs should or should not be included in the examination. Quantitatively the significance of the IEs is undeniable, as they form by far the biggest group of business units in Russia. In 2002 the total number of the IEs was about 4.5 million, while the number of registered enterprises and organisations was 3.8 million. (Goskomstat 2003; MTL 2004.) Yet their role in the Russian economy is difficult to determine. Data on individual entrepreneurs is poorly available, and it hardly covers the entire sector, as a large number of the IEs operate unregistered. Moreover, many of the IEs are self-employed entrepreneurs that are at the same time full-time employees elsewhere in the economy. Therefore, data on the IEs is somewhat vague, and it can be taken only indicatively. (Russian SME Observatory Report 2002.)

Excluding the IEs from the analyses, the total number of small entrepreneurial units remains radically lower, giving a completely different picture of the small business development in Russia. In this study, the IEs are taken into account when examining the sector quantitatively, but in deeper analysis the focus will be given on the SEs. While the IEs are important mainly to regional development as job creators and service providers, a developed SE sector exposes regions with developed business environment, where the market is not possessed by few giant corporations exclusively. Furthermore, the SEs can be considered to provide opportunities for foreign business operators.

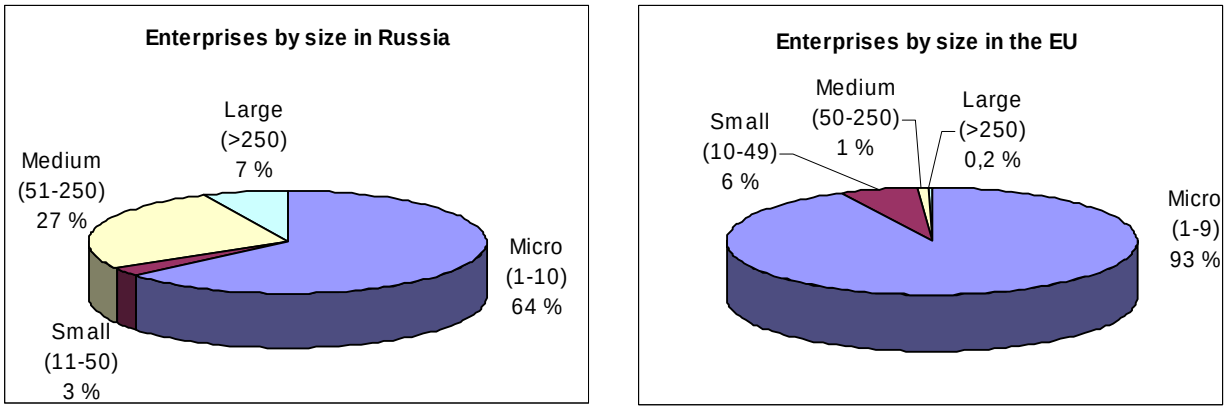
Which ever way the small enterprises are examined, the researcher needs to be aware of the specifics of the Russian concept of small business. Because of some fundamental differences, it is in many cases impossible to compare the Russian enterprises with other countries (see Appendix 1). However, comparison of some basic indicators is reasonable, as it gives a point of reference to the examination. In this study, the Russian enterprise sector is compared to the EU, where the small business is one of the main priorities and the small and medium-sized enterprises (SMEs) dynamic and plenty in number. (Observatory of European SMEs 2002.) Table 10 and Figure 3 illustrate the characteristics of the Russian enterprises in parallel with the EU enterprise sector.

Table 10. Characteristics of the Russian and the EU enterprise sectors

Enterprise sector in Russia			**Enterprise sector in the EU**		
Number of enterprises		**8 155 160**	**Number of enterprises**		**20 455 000**
of which	large (>250)	562 300	of which	large (>250)	40 000
	SMEs (1-250)	7 592 860		SMEs (1-250)	20 415 000
of which	medium (101-250)	2 170 420	of which	medium (51-250)	328 190
	small (11-100)	206 535		small (10-50)	1 861 405
	micro (1-10)	5 215 905		micro (1-9)	18 225 405
Number of enterprises/1000 people		**56**	**Number of enterprises/1000 people**		**54**
of which	large (>250)	4	of which	large (>250)	0,1
	SMEs (1-250)	52		SMEs (1-250)	54
of which	medium (101-250)	15	of which	medium (51-250)	1
	small (11-100)	1		small (10-50)	5
	micro (1-10)	36		micro (1-9)	48

Sources: ARP 2003; Goskomstat 2002; 2003; Observatory of European SMEs 2002; author's calculations.

Figure 3. Division of enterprises by size in Russia in 2002 and in the EU in 2001



Sources: ARP 2003; Goskomstat 2003; Observatory of European SMEs 2002; author's calculations.

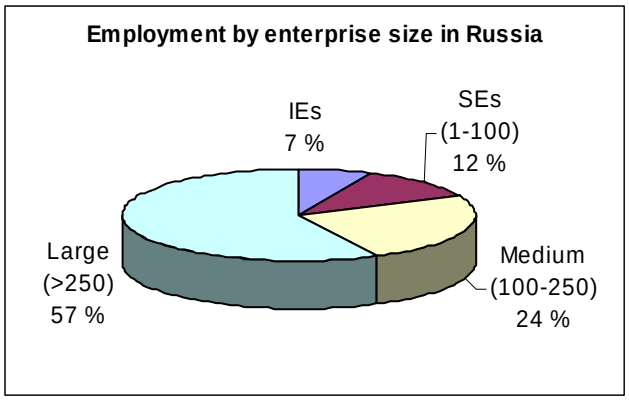
In the table the Russian enterprise sector has been divided into micro, small, medium and large enterprises in compliance with the EU definitions.[5] As the table shows, the total number of enterprises per 1000 people is almost equivalent in Russia and in the EU, Russia attaining a slightly bigger figure. What sticks out, however, is the division of the enterprise sector in size categories. In Russia the share of medium and large enterprises is conspicuous.

The same becomes evident in the figure, where the division of the Russian and the EU enterprise sectors by enterprise size is presented graphically. The charts bring out clearly the looks of the enterprise sectors in the two economies. In both regions the micro enterprises represent the biggest share, but the difference in the size structures of the enterprise sectors can be seen at a glance. In the EU the large enterprises form the implicitly smallest group, accounting for 0.2% of all the enterprises. Contrary to that, in Russia the small enterprises form the smallest group of enterprises accounting for 3% of the enterprises, the medium enterprises amounting for 27% and the large enterprises for 7%.

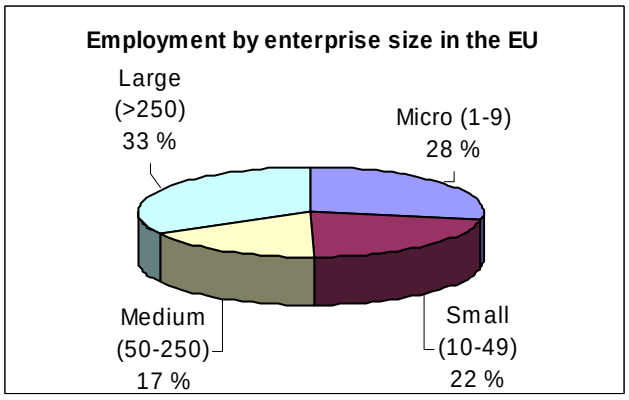
Thus, the share of medium and especially large corporations in Russia is striking. Even more striking it is, when we look at the contribution of the small enterprises to the economy. Employment of the enterprise sector divided by enterprise size is demonstrated in the following figure.

[5] It is worth noting, that the figures presented here are calculations based on several sources, and therefore only indicative. Here the micro enterprises consist of individual entrepreneurs and small enterprises with 1-10 employees, whereas small enterprises with 11-100 employees fall into category of 'small enterprises'. This categorisation is used only in Table 10 and Figure 3.

Figure 4. Division of employment by enterprise size in Russia (2002) and in the EU (2000)



Source: ARP 2003.

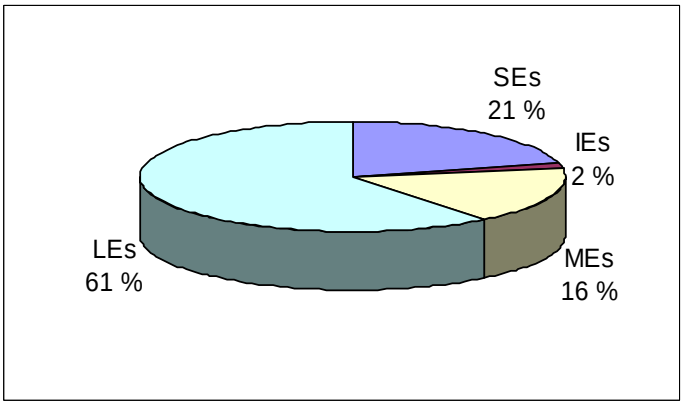


Source: Schmiemann 2002.

Looking at the figure, one notices that in the EU the employment is divided equally between small and micro versus medium and large enterprises, while in Russia the medium and large enterprises account for almost 82% of the employees, leaving a minor share (19%) for the small business units. However, according to a recent World Bank report, the share of the small enterprises is growing in Russia. Stating this, it is important to note also, that contrary to the EU, in Russia the smallest enterprises (with less than 10 employees) are not the most active job creators, but the growth occurs rather among establishments with 31-100 employees. The same report argues that the large enterprises, for their part, are the most inefficient job creators. (WB 2004.)

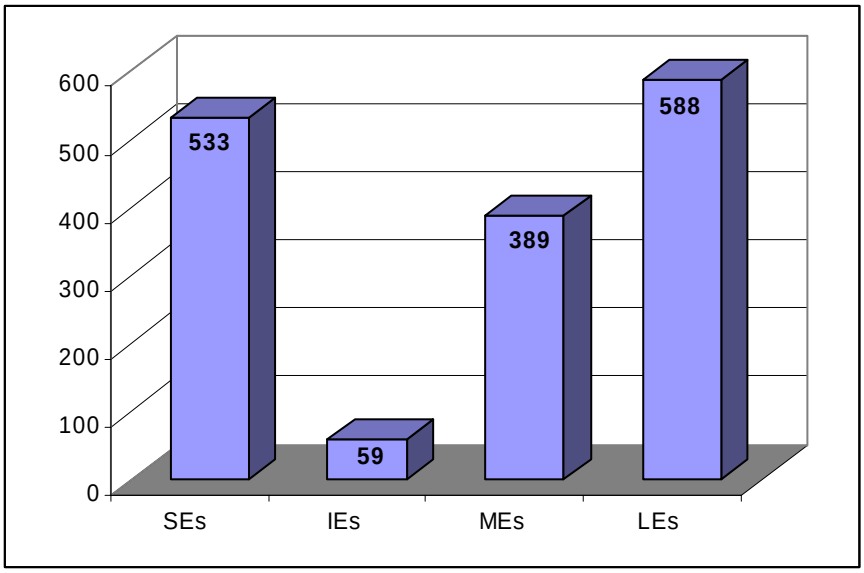
Similar features can be discovered comparing the market share of the enterprises of different size. Figure 5 demonstrates the division of sales revenues by enterprise size in absolute terms. In Russia the medium and large enterprises (MEs and LEs) dominate the market with a 77% share of the sales revenues. In the EU the market is divided much more evenly among different size groups; medium and large enterprises dominate also the EU market, but not to the same extent. In the EU the micro and small enterprises hold each nearly 20% of the market, while in Russia the market share of the SEs and IEs together comes up to only 23%. (Russian SME Observatory 2002.) In Figure 6 the sales revenues are proportioned to number of enterprises in order to measure the efficiency of the enterprises. This comparison gives some reference of the profitability of the enterprises.

Figure 5. Sales revenues by enterprises of different size in 2002 in Russia



Sources: ARP 2003; author's calculations

Figure 6. Sales revenues per one employee by enterprises of different size (1000 RUR)



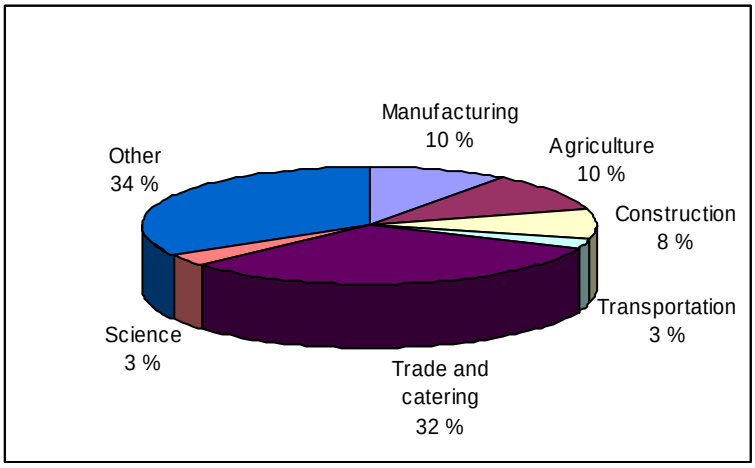
Source: ARP 2003.

Interestingly, the two figures show that the small enterprises have a good hold on the remnants of the markets. The SEs occupy the second largest share of the sales revenues (21%), and are the second most efficient group of enterprises after the large enterprises. Being privately owned, the small enterprises aim at high operational efficiency, which can be seen here. Taking a look at the IEs, one notes that their contribution to the economy is minimal. Even if the total number of IEs is impressive, they provide only 7% of the Russian jobs, and possess 2% of the total sales. The strong position of the large enterprises is evident by all measures. This is supposedly because of three main reasons. First of all, they are often monopolies in their market. Secondly, they usually operate in the most profitable spheres, and thirdly, they are likely to have good relations with local authorities. (ARP 2003.)

The large enterprises' dominance is problematic, as they quell small entrepreneurship with harsh competition. In the World Bank analysis (2004) it is claimed that in Russia the small businesses do not necessarily seek new operational spheres, but they are rather established within already existing, fast-growing sectors. Instead of creating new business models, and competing with the large enterprises, the SEs often provide support services for them. (WB 2004.)

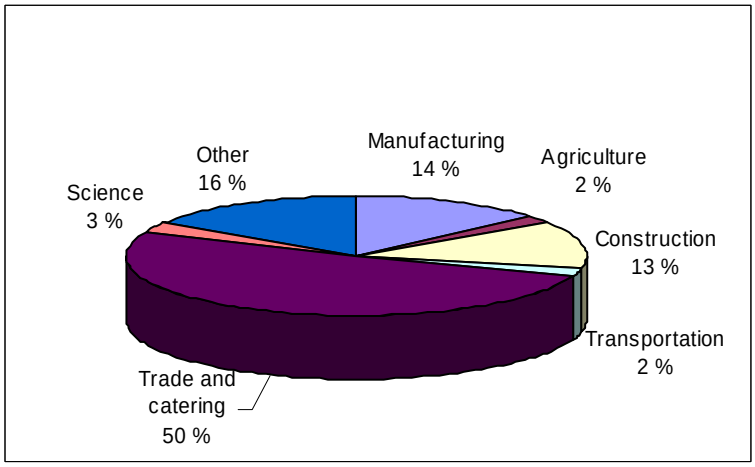
According to Radaev (2001) the Russian small enterprises are typically of two kinds; either they are serving large enterprises by trading in their goods, or they operate independently producing goods and services for local needs. The following figures seem to back up these statements. Comparing the share of 'other' branches of economy, it becomes evident, that the SEs are far more concentrated on a few main sectors, while the MEs and LEs have extended over the whole economy. Figures 7 and 8 profile the most important branches of economy among the enterprises.

Figure 7. Medium and large enterprises by branches of economy



Sources: Goskomstat 2003; author's calculations.

Figure 8. Small enterprises by branches of economy

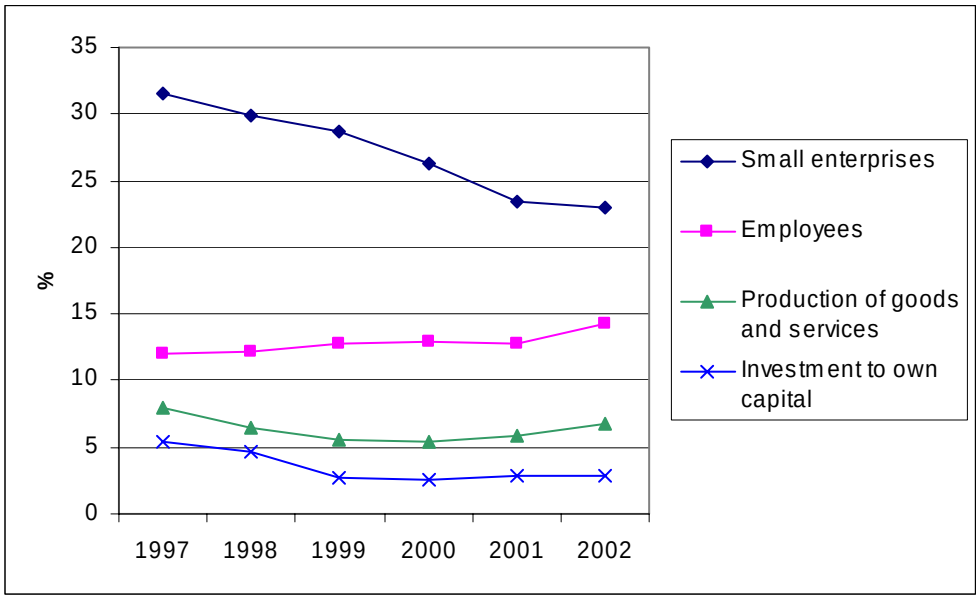


Sources: MP 2003; author's calculations.

The figure shows, that half of the SEs are operating among trade and services. The second largest sector is manufacturing (14%), followed by construction (13%). According to the Russian SME Observatory report (2002), construction and trade are the most profitable sectors among the small enterprises. These sectors are, indeed, more popular among small enterprises, than among the medium and large enterprises.

After visualising the Russian enterprise sector in general, it is worth evaluating more in depth the significance of the small enterprises (SEs) in the Russian economy. Figure 9 and Table 11 show some interesting features of the development of the SEs during the past few years.

Figure 9. Proportion of small enterprises among the Russian enterprises in 1997-2002 by different indicators



Sources: MP 2003; Goskomstat 2003; author's calculations.

Table 11. Development of the small enterprises in 1997-2002 by different indicators

	1997	1998	*Growth % y-o-y*	1999	*Growth % y-o-y*	2000	*Growth % y-o-y*	2001	*Growth % y-o-y*	2002	*Growth % y-o-y*
Number of SEs (1000)	861	868	*0,8*	891	*2,6*	879	*-1,3*	843	*-4,1*	882	*4,7*
Production volume ($ million)	10609	9167	*-13,6*	14830	*61,8*	21480	*44,8*	29845	*38,9*	40628	*36,1*
Number of employees	6515	6208	*-4,7*	6486	*4,5*	6597	*1,7*	6484	*-1,7*	7220	*11,4*
Investment to own capital ($ million)	774	676	*-12,7*	627	*-7,3*	1043	*66,5*	1523	*46,0*	1740	*14,3*

Sources: MP 2003; author's calculations.

In the figure it is seen that the share of the small enterprises in the total number of enterprises has been constantly diminishing. The trend has been most unfavourable in the North-Western and Ural FDs, where the share of small enterprises has come down from 48% and 40% respectively (in 1997), approaching now the country average of 23%. The figure, however, indicates also some strengthening of the small enterprises, as their share measured by other indicators seems to be slightly growing. The share of people employed in small enterprises has remotely increased, despite the falling trend of the number of small enterprises. As stated previously, in 2001-2002 the biggest employment growth was indeed found at companies with 31-100 employees. (WB 2004.)

Taking a look at the table one realises that the SEs' production volume, as well as investments to own capital, have been growing in absolute terms. Even if the small enterprise sector is not growing in number, especially production has evidenced sharp uptrend after year 1998. Also investments to own capital have been growing, indicating enhancing financial position. However, the advancement is still rather negligible, and the small enterprises' proportion among all the enterprises is insignificant by these measures. Unsatisfactory financial status continues to be one of the main reasons for slow SE development. Excessive tax burden, substantial labour costs, insolvency of the clients, lack of demand and high competition in the home market, and the enterprises' necessity to rely on external funding are considered the most restricting features for small enterprise development. As the medium and large companies keep strengthening, it is impossible for the small firms to gain ground without further support from the government. According to a survey by

Goskomstat, the small entrepreneurs, however, see their future rather positively. In the last quarterly of 2003, most of the SE managers considered the economic situation satisfactory. (MP 2003; Russian SME Observatory 2002.)

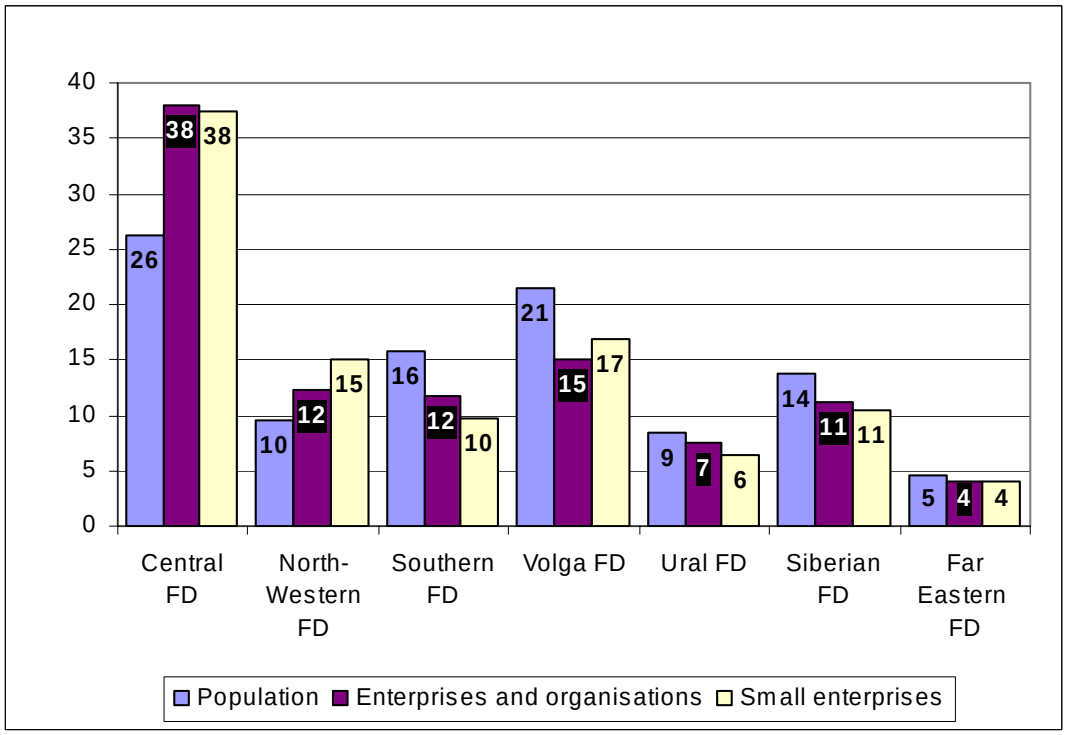
The characteristics of the enterprise sector as described in this chapter are founded on statistics of the Russian authorities. These statistics are based on data on registered enterprises, and reported economic activity only. In reality, the figures can be quite different, as it is estimated that the informal economy accounts for as much as 50% of the Russian GDP. Most of the informal economic activities take place among enterprises with less than 5 employees, meaning that the actual amount of small enterprises is somewhat bigger than the statistics show. (Krashakov 2002; Russian SME Observatory 2002.) However, the significance of the small enterprises to the Russian economy remains weak, as the shadow economy does not contribute to the national economy.

To conclude the findings of the chapter, it is justified to argue, that the small enterprises have not yet been able to fulfil their role in the Russian economy. In the EU the small enterprises are valued for their capability to provide job opportunities and, as a consequence, to raise overall living standard. In Russia, the small enterprises' role is still underestimated, and the sector therefore poorly developed. The small enterprises have somewhat grown in number during the last years, but they are too few and too weak to stimulate notable economic growth. The economy is still largely commanded by giant enterprises, and the small businesses are left with very little space to live. State actions are needed in order to create a strong small enterprise population.

3.2 Regional Disparities in Small Business Development

As mentioned in the previous chapter, the biggest proportion of all the Russian enterprises is found in the Central FD. The Central FD represents 26% of the Russian population, 38% of the enterprises and organisations and 38% of the small enterprises. The division of population, enterprises and organisations and small enterprises over the country is pictured in Figure 10. The figure gives some indication of the enterprise activity in different areas of Russia.

Figure 10. Geographic division of population, enterprises and organisations and small enterprises over Russia. (% of Russia in total)

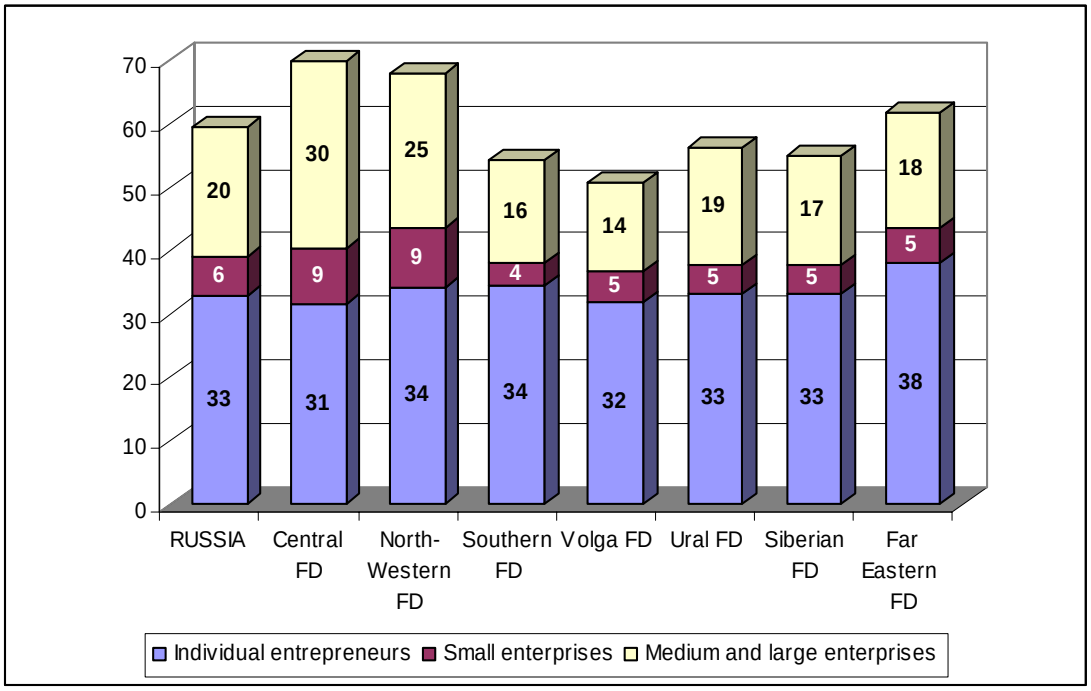


Sources: Goskomstat 2003; author's calculations.

On the grounds of the figure, one realises that the Central and the North-Western FD are the only FDs where the share of enterprises exceeds the share of population. This means, as will be seen in the following figure, that the enterprise density (per 1000 inhabitants) is highest in the two FDs. Thus, the Central and the North-Western FDs seem to have more active business life than any other area. The figure further shows that the North-Western and the Volga region have attracted proportionately more small enterprises than enterprises in general. This is particularly interesting, as the statistics show that the allocations for small business support under regional SME support programmes in 2002 were among the smallest in these particular federal districts (SME statistics 2002.).

Figure 11 demonstrates the enterprise density, a commonly used indicator for describing small enterprise activity, by different forms of entrepreneurial units in the Russian federal districts. The figure shows that the IEs form the largest group of economic entities in all the federal districts. The number is biggest in the Far Eastern FD and smallest in the Central FD. At FD level, there are no huge deviations in the number of IEs per population, but later on, as we take the administrative regions under further examination, we notice that the deviations inside the FDs are considerable.

Figure 11. Enterprise density in Russia and the federal districts. (enterprises per 1000 inhabitants)[6]



Sources: Goskomstat 2003; MP 2003; author's calculations.

In number of SEs, the difference between the Central and the North-Western FD versus the other FDs emerges. In the two FDs the number of SEs per population is almost two-fold in relation to the other FDs. Also the number of large and medium organisations is considerably higher in the North-Western and the Central FD. The reason can be again sought in the pull force of Moscow and St. Petersburg. With further examination one finds out that Moscow city alone represents 21% of the Russian small enterprises (57% of the SEs in the Central FD). In the North-Western FD 68% of the small enterprises, equalling to 9% of all the Russian SEs, are situated in the city of St. Petersburg.

In the following section the distribution of the small businesses over Russia will be further analysed. Here, it is reasonable to study the small enterprises and the individual entrepreneurs separately, as there are major differences in their geographic division. Combining the number of SEs and IEs would be misleading, as the number of IEs is often dominating, highlighting regions with remarkable IE activity. However, a large number of IEs does not necessarily indicate developed and business-friendly conditions for entrepreneurship. Rather, it can be presumed, that in the regions where the share of registered SEs with legal status is considerable, the business environment for enterprises is developed, and the prerequisites for wider business activity exist. These regions can, most likely, offer a sound business environment also for foreign companies.

In the geographical analyses, we will first take a look at the total number of small enterprises in the regions. Table 12 shows 20 regions with the largest number of small enterprises in Russia in absolute terms. Predictably, the list consists foremost of regions with large population.

[6] The enterprise size classification in Figure 11 follows the Russian compilation of statistics. The individual entrepreneurs (IEs) are individuals engaged in economic activities, operating without judicial form and often without registration. The small enterprises (SEs) are registered firms with legal status, employing 1-100 employees. The medium and large enterprises include all the other enterprises and organisations.

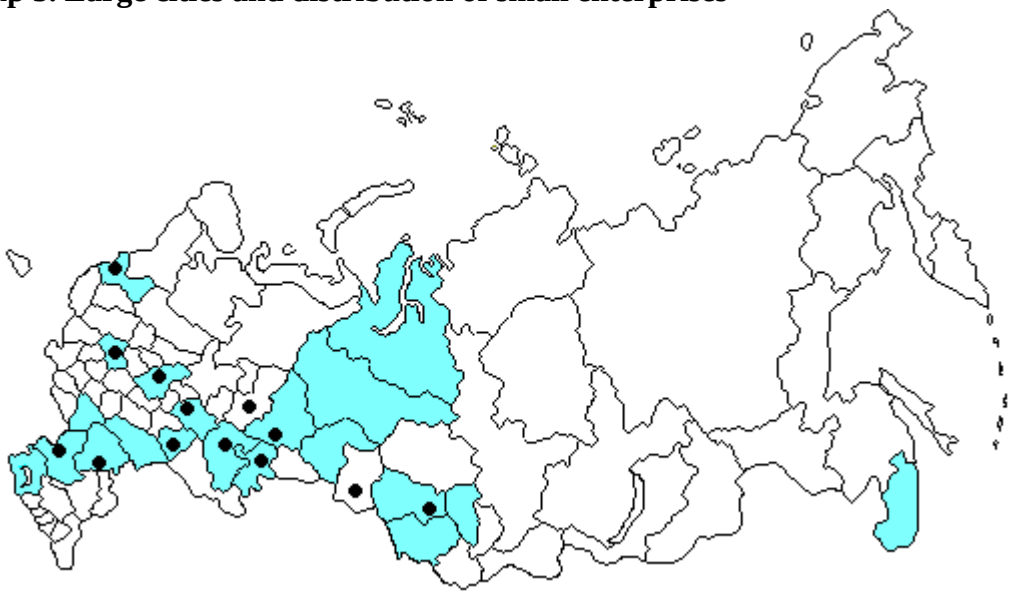
Additionally, most of the top 20 regions are surrounding million-cities. This is portrayed in Map 5, which shows the geographical location of the 13 million-cities in Russia, as well as the 20 regions listed above.

Table 12. Regions with biggest small enterprise population

Rank	Region	Population (1000)	Million cities in the regions	Number of SEs	SEs /1000
1	Moscow	10383		189400	18
2	St. Petersburg	4661		89600	19
3	Moscow obl	6619	Moscow	45900	7
4	Samara obl.	3240	Samara	31500	10
5	Rostov obl.	4404	Rostov on Don	25200	6
6	Krasnodar krai	5125		23900	5
7	Novosibirsk obl.	2692	Novosibirsk	23600	9
8	Sverdlovsk obl.	4486	Yekaterinburg	22800	5
9	Chelyabinsk obl.	3604	Chelyabinsk	19800	5
10	Tatarstan rep.	3779	Kazan	18200	5
11	Nizhny Novgorod obl.	3524	Nizhny Novgorod	17100	5
12	Bashkortostan rep	4104	Ufa	15800	4
13	Voronezh obl.	2379		14000	6
14	Volgograd obl.	2699	Volgograd	13700	5
15	Saratov obl.	2668		13600	5
16	Kemerovo obl.	2899		13000	4
17	Altai krai	2607		12800	5
18	Leningrad obl.	1669	St. Petersburg	11500	7
19	Primorsk krai	2071		11300	5
20	Tyumen obl.	3265		11100	3

Sources: Goskomstat 2003; 2004.

Map 5. Large cities and distribution of small enterprises



Looking at the map the interrelation with the million-cities and the amount of SEs can be easily seen. Perm and Omsk regions are the only million-city regions that do not reach to top 20 in number of small enterprises. Furthermore, only in 7 regions out of the 20, the largest city has less than million inhabitants, these being Krasnodar 644 000 (in Krasnodar krai), Voronezh 848 000 (in

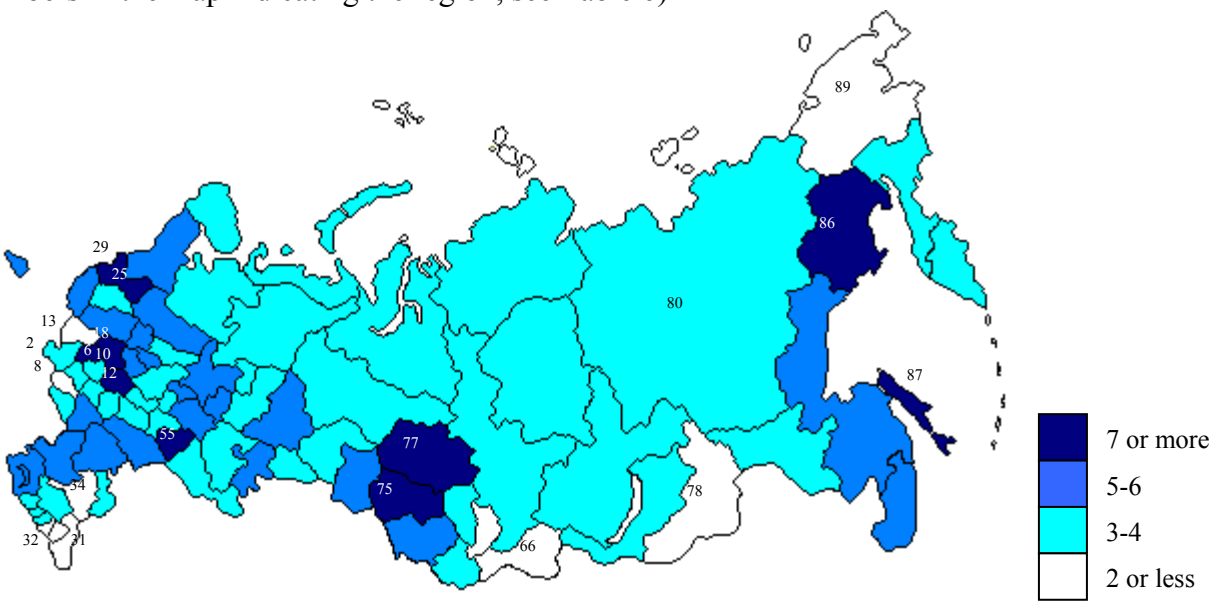
Voronezh oblast), Saratov 873 000 (in Saratov oblast), Novokuznetsk 550 000 (in Kemerovo obl.), Barnaul 603 000 (in Altai krai), Vladivostok 591 000 (in Primorsk krai) and Tyumen 510 000 (in Tyumen oblast).

Furthermore, in the table it becomes evident that the SE density rises above average (6) only in six regions; in Moscow (18) and St. Petersburg (19) cities and in Samara (10), Novosibirsk (9), Moscow (7) and Leningrad (7) regions. Being urban regions, with rather high income level, fairly well developed infrastructure, and sufficient demand for consumer products, St. Petersburg and Moscow contrast sharply with the SE density in other regions. Not even the surrounding regions, Moscow and Leningrad oblast, are able to reach to the same level.

There is no comparable data available concerning the other large cities, but the distribution of the SEs can be presumed to follow the same pattern. The SEs are situated primarily in cities, where the infrastructure is developed and where there is enough purchasing power. In all the regions majority of the small enterprises is, presumably, situated in city area with above average SE density. At the same time the surrounding regions are left with practically nothing, and consequently, the enterprise activity across the region remains low. Therefore, even if the enterprise density seems low in the region, the small business activity can be dynamic in the city area. This is supposed to be the case particularly in the million-city regions.

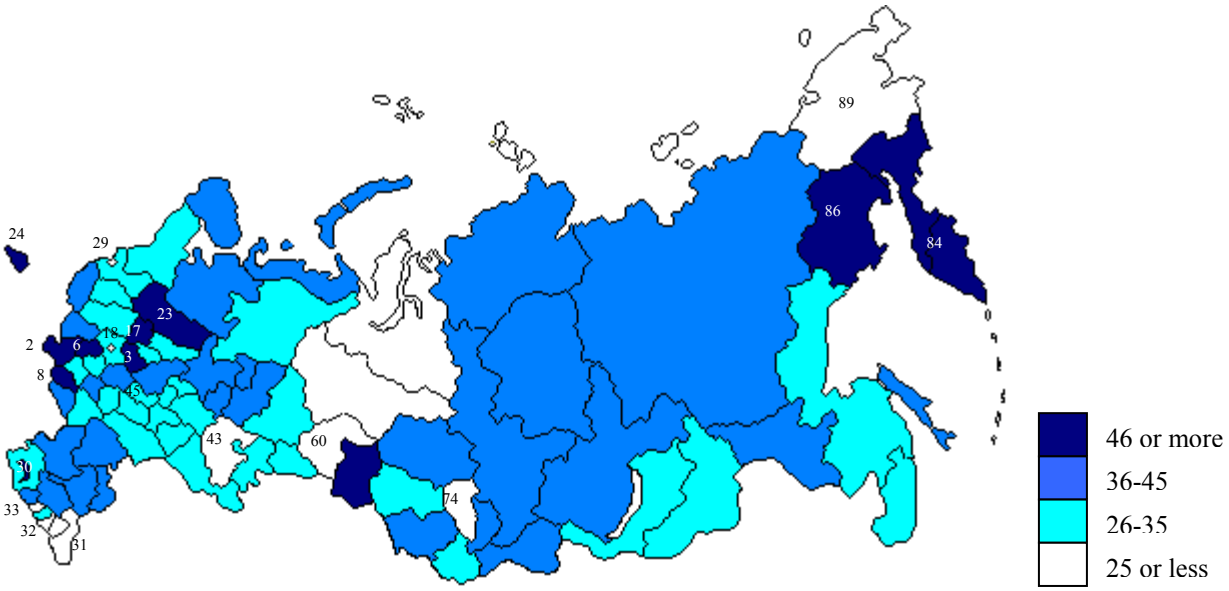
In the following figures the study is extended to enterprise density in all the 89 regions. The purpose of these analyses is to point out all the regions with dynamic small business, regardless of the size of the population. Map 6 shows the distribution of the SEs, while Map 7 portrays the distribution of the IEs over Russia. One notes that the two maps look rather different. The SEs and IEs require different operational conditions, and are thus distributed in different areas.

Map 6. Small enterprises in the Russian regions
(numbers in the map indicating the region, see Table 6)



Source: Goskomstat 2003.

Map 7. Individual entrepreneurs in the Russian regions
(numbers in the map indicating the region, see Table 7)



Sources: Goskomstat 2003; MTL 2004.

The four categories of SE and IE density have been defined with the purpose to separate the implicitly best and worst performing regions. In Map 6 the darkest colour indicates the regions with above average SE density, the Russian average being 6, while in Map 7 the Russian average (33) falls into the second lowest category. The white regions are in both maps regions with very low entrepreneurial activity.

Comparing the two maps one observes that the IEs are far more evenly distributed over the country than the SEs. In the upper map only 11 regions reach to above average level in SE density, while in

the lower map 45 regions altogether witness above average IE activity. This can be assumed to derive from the fact that the IEs require less from the business environment, and administrative and legislative framework. The information shown in the maps is reported numerically in Tables 13 and 14. The both tables show the number of SEs and IEs in the regions, and additionally state the combined figure of all the small economic entities (SEEs) in the region.

Table 13. Number of small enterprises per 1000 inhabitants in Russian regions: the best and the worst performers by number of SEs

Best performers						Worst performers					
Rank	Region		SEs	IEs	SEEs	Rank	Region		SEs	IEs	SEEs
1	29	St. Petersburg	19	24	43	1	32	Ingushetiya rep. (icl. Chechnya)	1	4	5
2	18	Moscow	18	18	36	2	31	Dagestan rep.	1	21	22
3	86	Magadan obl.	15	85	100	3	34	Kalmykia rep.	2	43	45
4	55	Samara obl.	10	31	41	4	89	Chukchi AO	2	23	25
5	75	Novosibirsk obl.	9	26	35	5	66	Tyva rep.	2	41	43
6	87	Sakhalin obl.	9	44	53	6	78	Chita obl.	2	26	28
7	12	Ryazan obl.	7	35	42	7	13	Smolensk obl.	2	42	44
8	10	Moscow obl.	7	27	34	8	8	Kursk obl.	2	59	61
9	25	Leningrad obl.	7	30	37	9	80	Sakha rep. (Yakutia)	3	40	43
10	77	Tomsk obl.	7	37	44	10	2	Bryansk obl.	3	50	53

Source: Goskomstat 2003.

Table 14. Number of individual entrepreneurs per 1000 inhabitants in Russian regions: the best and the worst performers by number of IEs

Best performers						Worst performers					
Rank	Region		IEs	SEs	SEEs	Rank	Region		IEs	SEs	SEEs
1	86	Magadan obl.	85	15	100	1	32	Ingushetiya rep. (icl. Chechnya)	4	1	5
2	8	Kursk obl.	59	2	61	2	60	Tyumen obl.	14	3	17
3	84	Kamchatka obl.	53	4	57	3	18	Moscow	18	18	36
4	23	Vologda obl.	52	5	57	4	74	Kemerovo obl.	21	4	25
5	24	Kaliningrad obl.	52	5	57	5	31	Dagestan rep.	21	1	22
6	3	Vladimir obl.	52	6	58	6	43	Bashkortostan rep.	22	4	26
7	30	Adygeya rep.	52	5	57	7	89	Chukchi AO	23	2	25
8	2	Bryansk obl.	50	3	53	8	33	Kabardino-Balkaria rep.	24	4	28
9	17	Yaroslavl obl.	50	6	56	9	29	St. Petersburg	24	19	43
10	6	Kaluga obl.	49	7	56	10	45	Mordovia rep.	26	3	29

Sources: Goskomstat 2003; MTL 2004.

Comparing the two tables, hardly any interrelation can be found between the amount of SEs and IEs in the region. While the Magadan region ranks high and Chukchi, Dagestan and Ingushetia low in both listings, some of the best performing regions in SE density fall among the worst performers in IE density (Moscow, St. Petersburg) and vice versa (Bryansk, Kursk). Without conducting a deeper analysis it can be presumed, that the SEs are generally found in regions with higher incomes, while the IEs operate mainly in less developed regions, often with fairly large rural population. Reasons for weak SEs and IEs activity can be sought in the dominating role of large enterprises (e.g. Chukchi AO and Kemerovo oblast) or poor socio-economic situation (e.g. in republics of Dagestan, Kabardino-Balkaria, Kalmykia and Ingushetiya in the Southern FD). Moreover, the entrepreneurial activity is most likely accelerated in border regions, where people trade across the border, and enterprises operate as middlemen for foreign trade operations of the large corporations.

Before drawing any conclusions on entrepreneurial activeness, based on the small enterprise density, it is worth perceiving, that there can be considerable annual deviations in the figures. The enterprise density is dependent both on changes in number of enterprises and changes in population. Comparing the figures in 2002 to year 2001, some interesting features can be noticed. Looking only one year back, it is impossible to describe trends in small enterprise development, but the

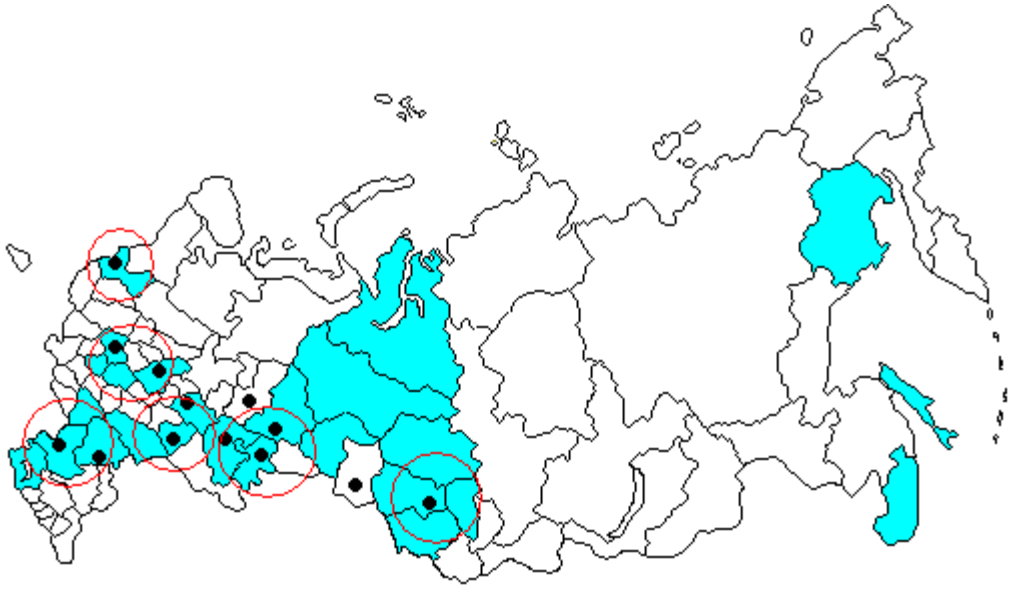
comparison makes one understand the fragility of the development of the small enterprise sector in Russia.

While some of the regions have witnessed rapid growth in number of SEs during one year, some of them have evidenced a dramatic drop. For example, in Kaliningrad region the SE density fell during 2001-2002 from 8 to 5, and the region's position in the ranking from 7th to 21st. The number of small enterprises diminished suddenly by 34% in one year. Instead, Magadan region witnessed seemingly positive trend in SE development in 2001-2002, as the number of SEs per 1000 people increased from 12 to 15. However, with a closer look, this turns out to be foremost due to decreasing population; while the population diminished by 22%, the number of enterprises only diminished by 7%. Consequently, looking at the figures of one single year, the actual tendencies in the enterprise development cannot be clarified.

The analyses we have conducted so far, describe small business activity in Russian regions, but they are not enough to view the actual business potential of the regions. Many of the regions with high SE density have very small population, which, obviously, does not seem appealing for foreign companies. In order to find the most attractive areas for foreign business operators, factors such as purchasing power, socio-economic development as well as institutional framework and level of the infrastructure should be taken into account.

As was stated before, in Russia the small businesses do not necessarily seek new sectors, or regions with lack of suppliers, but they are rather established within fast-growing regions, in particularly fast-growing sectors. (WB 2004.) This leads to spatial agglomeration, which allows us to identify a few regional concentrations, where the SE development seems more positive than in elsewhere in the country. Consequently, built on the previous analyses, six geographic areas, conceived more interesting or more potential for a foreign operator than the others, are determined. The areas are drawn purely on geographic bases, and are therefore partly overlapping.

Map 8. Six groups of regions with highest small business activity



In Map 8 all the regions with high SE density or large number of SEs are coloured with blue, after which the six conglomerates have been identified. The three Far Eastern regions are excluded because of their isolation and comparatively small population (Primorsk 2 million, Sakhalin

500.000 and Magadan 180.000 people). These regions might, though, provide opportunities for companies already operating e.g. in Japan or China.

In all the six groups shown in the map, it is possible to name at least one leading region, i.e. a region that can function as a base for business operations in the surrounding regions. The leading cities of the regional conglomerates were identified as *1) St. Petersburg, 2) Moscow and Nizhny Novgorod, 3) Rostov-on-Don, 4) Samara, 5) Ekaterinburg and Chelyabinsk and 6) Novosibirsk.* The regions of the six agglomerations are further described in Table 15 and Figure 12 with some interesting indicators.

Table 15. Characteristics of the six conglomerates

	Popul. (1000)	Urban popul. (%)	Income level			GDP		Retail trade		SE characteristics					
			ranking[i]	Growth index[ii]	GINI coeff.[iii]	Per capita	Growth index	Per capita	Growth index	SE density high	SE density low	The share of SEs in Manuf	Constr	Transp	Trade
RUSSIA average	**145000**	**73**		**111**	**0.398**	**1901**	**106**	**905**	**109**	**6**		**8**	**33**	**4**	**11**
Group 1	**6330**														
St. Petersburg	4661	100	10	113	0.347	2076	105	1044	109	19		12	63	4	25
Leningrad obl.	1669	66	55	111	0,304	1696	109	559	109	7		5	27	8	21
Group 2	**21754**														
Moscow	10383	100	1	103	0.609	6577	103	3585	103	18		21	59	8	5
Moscow obl	6619	79	20	113	0.345	1444	107	813	112	7		20	43	11	23
Ryazan obl.	1228	69	50	118	0.331	1221	104	551	118	7		12	35	6	32
Nizhny Novgorod ob	3524	78	25	113	0.343	1626	109	742	115		5	6	57	4	29
Group 3	**14607**														
Rostov obl.	4404	67	28	111	0.364	1014	116	810	110	6		19	38	7	24
Voronezh obl.	2379	62	48	109	0.353	911	101	640	103	6		11	29	11	20
Volgograd obl.	2699	75	31	114	0.328	1196	110	651	114		5	5	36	2	18
Krasnodar krai	5125	53	38	**115**	0.377	1277	98	696	**118**		5	17	21	5	19
Group 4	**9687**														
Samara obl.	3240	81	13	111	0.424	2183	107	1381	106	10		8	66	2	26
Saratov obl.	2668	73	43	112	0.321	982	103	593	111		5	8	37	2	15
Tatarstan rep.	3779	74	24	113	0.374	2026	107	691	103		5	5	17	2	9
Group 5	**15459**														
Sverdlovsk obl.	4486	88	16	113	0.356	1646	109	840	**121**		5	5	44	2	12
Chelyabinsk obl.	3604	82	28	108	0.350	1454	103	648	113		5	7	35	2	18
Bashkortostan rep	4104	64	27	114	0.368	1589	108	700	113		4	3	25	0	14
Tyumen obl.	3265	77	3	102	0.448	8822	110	1176	111		3	1	16	3	7
Group 6	**9244**														
Novosibirsk obl.	2692	75	37	**119**	0.349	1368	**112**	884	**119**	9		23	52	4	33
Tomsk obl.	1046	68	17	**118**	0.368	2109	**111**	728	117	7		4	46	3	13
Kemerovo obl.	2899	87	15	111	0.367	1376	105	876	**119**		4	6	38	3	14
Altai krai	2607	53	67	113	0.361	851	107	555	104		5	16	23	2	16

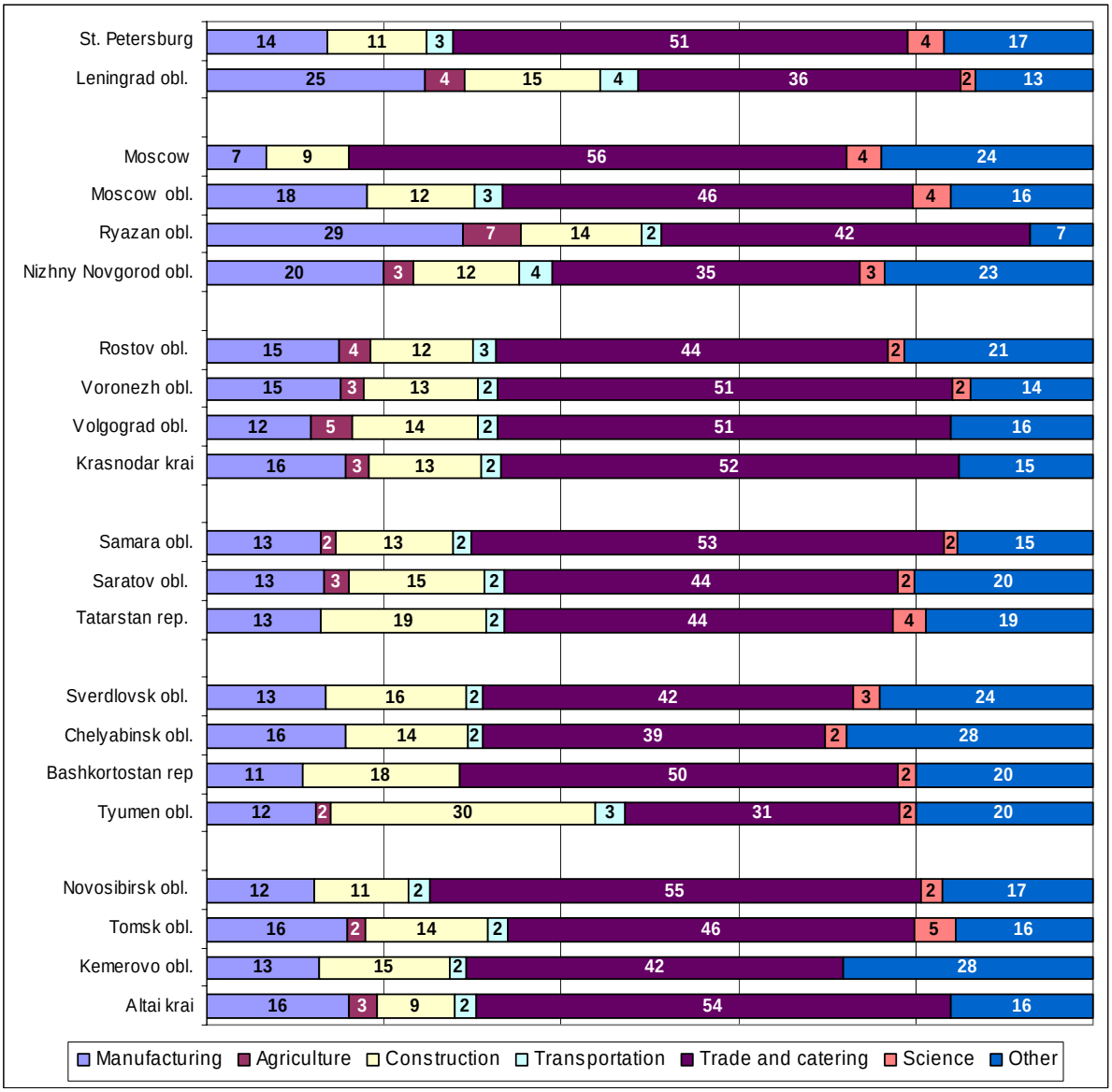
[i] Ranking of the 89 Russian regions by average incomes.

[ii] Growth indexes in 2002 (compared to 2001)

[iii] Gini coefficient index describes the degree of inequality in income distribution in an economy. The possible values range from 0 to 1, zero indicating perfect equality and one perfect inequality. In the Nordic countries Gini coefficient ranges between 0.25 and 0.30 (Finland 0.25), while the average for Latin America is estimated at 0.58. The world average is 0.40. (PAHO 2004.)

Sources: Goskomstat 2002; 2003; 2004

Figure 12. Small enterprises by main branches of economy in the six conglomerates



Source: MP 2003.

Common to most of the regions in Table 15 is that they have all witnessed high growth in GDP, income level and retail trade, illustrating enhancing living standard in the region, and thus increasing business opportunities. The table does not, however, give any clear indication on the reasons behind high versus low SE activeness in the regions. In Tyumen, for instance, the income level is third highest in Russia and GDP and retail trade volume per capita substantially above Russian average with high growth rates, but yet the SE activity is very low (3 SEs per 1000 inhabitants). By contrast, in Ryazan region the SE density is above the Russian average, even if the region remains notably below the average measured by income level, GDP and retail trade. As it is not possible to complete a thorough analysis on each region, we abide by studying the main indicators, and drawing some suggestive conclusions. In the following the six groups of regions will be analysed more in detail.

St. Petersburg – Leningrad oblast
The first group, consisting of the city of St. Petersburg and Leningrad region, is one of the most interesting areas for foreigners due to its closeness to the EU. Being of special interest to Finnish operators, this group will be explored more in detail later on in this chapter.

Moscow – Moscow oblast – Ryazan oblast – Nizhny Novgorod oblast
The second group, situated around the city of Moscow, forms together with Moscow, Ryazan and Nizhny Novgorod regions, a market of nearly 22 million people. In this group Ryazan region, being smaller in population, and having a bigger share of rural population and lower income level, diverges from the other three regions. Among the four regions, Moscow city is clearly the best performing region by any measure, followed by Moscow oblast. It is interesting to note, though, that more than half of the SEs in Moscow city are concentrated in trade and catering, yet the SEs generate only 5% of the sales volume in trade. Being an industrial region, in Nizhny Novgorod a similar pattern applies to manufacturing; 20% of the SEs operate among manufacturing, producing only 6% of the industrial output. This gives a clear indication of the large companies' continuously dominating role.

Rostov oblast – Voronezh oblast – Volgograd oblast – Krasnodar oblast
The third group consists of Rostov, Voronezh, Volgograd and Krasnodar regions. Situated in the Southern Russia (Voronezh oblast belongs administratively to the Central FD) the regions have rather large rural population. Income level is low in all the four regions, signifying a market that is large in number (14.6 million), but small in purchasing power. The income level is highest in Rostov region, where the retail trade is also best developed. Construction and trade are the most important sectors among small businesses in all the regions, but the share of the SEs remains modest in all sectors. Presumably, in these regions the number of small enterprises is high mainly because of the large cities (Rostov on Don 1.1070,000, Volgograd 1.012,000, Voronezh 848,000, Krasnodar 644,000, Sochi 328,000, Volzhki 310,000, Taganrog 282,000) that attract business operators.

Samara oblast – Saratov oblast – Tatarstan republic
The fourth group of regions is a concentration of three industrial regions, Samara, Saratov and Tatarstan. Among these regions Samara is the best performer measures by income level, GDP and retail trade per capita, and SE activity. Samara and Tatarstan belong to the top 15 regions in industrial output, Samara in the 5th and Tatarstan in the 7th position. In Table 15 the difference in the SE activity in the three regions can be seen clearly. In Samara the SEs are responsible for 66% of the construction volume and 26% of the trade volume in the region, while in Saratov and, especially, in Tatarstan the SEs' share remains considerably lower. Samara region is one of the few regions in Russia, where the small enterprises are granted with significant supports, which can be seen in the activeness of the small enterprises. (Finpro 2004.)

Sverdlovsk oblast – Chelyabinsk oblast – Bashkortostan republic – Tyumen oblast
The fifth regional concentration is situated close to the fourth. Here Tyumen oblast represents the region with the highest incomes, GPD and retail trade per capita, but at the same time with the lowest SE activity. Far more favourable conditions for SEs seem to be offered in Sverdlovsk and Chelyabinsk regions, where the SEs have a good hold e.g. on the construction sector. Furthermore, especially Sverdlovsk region has witnessed extensive growth in retail trade. With rather high, and constantly growing income level, and good contacts to other regions, Sverdlovsk region appears to be a rather attractive business area. (Finpro 2004.)

Novosibirsk oblast – Tomsk oblast – Kemerovo oblast – Altai republic
The sixth group consists of four rather different regions. As an agricultural region Altai krai is the least developed of the four regions. Novosibirsk ranks highest in the SE density, followed by Tomsk. In Novosibirsk the SEs generate considerable share of the region's construction, manufacturing and trade volume, in Tomsk the SEs perform best among construction. In Kemerovo oblast one realises, that the SEs are plenty in number, but the SE density remains low. The structure of Kemerovo economy resembles that of Tyumen region; the industry is dominated by few large enterprises.

As a conclusion, it can be argued, that the regions with higher SE density provide a more open-minded business environment, as the competition is freer and the market is not controlled by large corporations to intolerable extent. In regions where the number of SEs is low, but living standard rather high, the markets are supposedly dominated by large enterprises; purchasing power exists, but the competition is too hard for the SEs to survive. Based on the analyses in this chapter, the Russian 89 regions were cut down to six regional concentrations, considered more attractive than the other regions. In four of the groups, it was possible to name at least one region, where the business environment seems more open than on average in Russia, based on the small business activity in the region. These regions were *St. Petersburg and Leningrad oblast* in the North-Western FD, *Moscow and Moscow oblast* in the Central FD, *Nizhny Novgorod and Samara oblasts* in the Volga FD and *Novosibirsk and Tomsk oblasts* in the Siberian FD. In the following the analysis will be deepened in the business climate and small enterprise development in the North-Western FD, the closest and most lucrative region for the Finnish business operators to direct to.

Small Business Development and Business Climate in the North-Western Federal District
Estimating the small enterprises' contribution in the North-Western FD, one notices that the role of St. Petersburg city is overwhelming. In 2002 67% of the small enterprises in the district were situated in St. Petersburg, generating 55% of the goods and services produced by the SEs. In addition to St. Petersburg, the SE density is above the Russian average only in Leningrad oblast, which is the second best performer measured by small business activity. Yet, Leningrad oblast amounts only for 9% of the small enterprises in the FD, and 7% of the production volume. The share of the other regions remains minimal. The characteristics of the small enterprises in the North-Western regions are demonstrated in Table 16.

Table 16. Characteristics of the North-Western regions

	Popul. (1000)	Urban popul. (%)	GDP		Income level			Retail trade			SE density	
			Per capita (USD)	Growth index	Average (USD)	Ranking	Growth index	Volume (million USD)	Per capita	Growth index	high	low
RUSSIA	**145164**	**73**	**1901**	**106**	**139**		**111**	**131378**	**905**	**109**	**6**	
North-Western FD	**13972**	**82**	**1842**	**105**	**137**		**111**	**12061**	**863**	**108**	**9**	
Karelia rep.	716	75	1568	103	135	18	120	607	848	120		5
Komi rep.	1018	75	2767	108	201	5	110	1285	1263	108		3
Arkhangelsk obl.	1336	75	1658	106	131	19	109	1029	771	108		4
incl. Nenetsky AO	*42*	*63*	*..*	*107*	*270*	*..*	*123*	*38*	*903*	*104*		*4*
Vologda obl.	1270	69	1865	102	119	22	111	778	613	110		5
Kaliningrad obl.	955	78	1160	103	90	47	99	620	649	101		5
Leningrad obl.	1669	66	1696	109	85	55	111	933	559	108	7	
Murmansk obl.	892	92	2137	102	194	8	104	1021	1145	102		3
Novgorod obl.	694	70	1361	112	104	36	107	471	678	106		4
Pskov obl.	761	66	918	100	84	57	119	441	580	114		5
St. Petersburg	4661	100	2076	105	160	10	113	4876	1046	109	19	

Source: Goskomstat 2003; 2004.

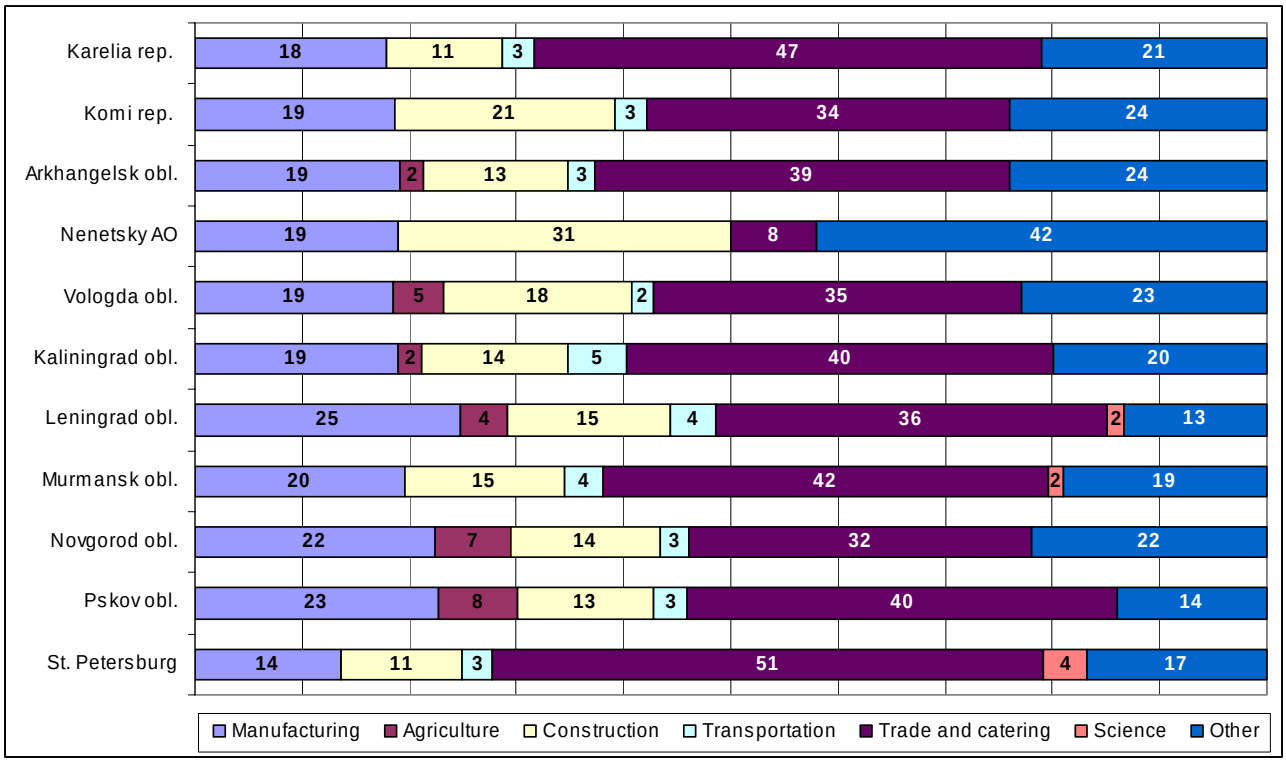
In the table the huge regional differences in socio-economic development are shown clearly. Three of the NW regions belong to the Russian top 10 measured by income level (Komi republic, Murmansk oblast and St. Petersburg city), while in three regions the average wage is USD 90 or less (Kaliningrad, Leningrad and Pskov oblasts). The regions with high income level are, evidently, regions with higher GDP and retail volume, and with higher purchasing power.

Again, the SE development is not consistent with the level of economic development in the region. In Komi and Murmansk the SE density is 3, while in St. Petersburg there are 19 small enterprises per 1000 inhabitants, which is more than anywhere else in Russia. Of the less developed regions, Leningrad oblast is performing well in small enterprise development, whereas Kaliningrad and Pskov remain below the average level. Kaliningrad used to belong to the best performing regions in Russia in 2001, but the number of small enterprises fell dramatically during one year; 2600 small enterprises died in one year, meaning a drop of 34%.

Further, one notices that especially in Novgorod region, the share of the SEs in total production remains insignificant in all the sectors (not more than 11%). Attracting foreign investment has been a government priority in the region, apparently at small enterprises expense. In most of the regions the SEs position is strongest among construction and trade, with a few exceptions. In Karelia republic and Murmansk oblast the SEs' share of agricultural production is striking, while in Pskov oblast the SEs' proportion is remarkable in manufacturing. In Kaliningrad and Leningrad oblast the small enterprises hold 8% of the total volume in transportation sector, which is more than on average in Russia or in the North-Western FD. Here the reason can undoubtedly be found in the geographical location of the two regions.

The division of the small enterprises by main branches of economy is further illustrated in Figure 13. In the figure it is seen that in almost all the regions, most of the small enterprises operate among trade and catering. The share of manufacturing is relatively high especially in Leningrad, Pskov and Novgorod region, compared to the Russian average, 14%. Number of agricultural SEs comes up in Pskov, Novgorod, Vologda and Leningrad regions. Table 17 further illustrates the role of the small enterprises in the regional economy.

Figure 13. Small enterprises by main branches of economy in the North-Western FD



Sources: Goskomstat 2003; MP 2003.

Table 17. Role of the small enterprises in the regional economies (%)

	Distribution of SEs by branches of economy (%)						Share of SEs in total number of enterpises (%)						Production share of SEs in total output (%)				
	Manufac	Agricult	**Constru**	Transp	**Trade**	Science	Manufac	Agricult	**Constru**	Transp	**Trade**	Science	Manufac	Agricult	**Constru**	Transp	**Trade**
Karelia rep.	18	**1**	**11**	3	**47**	1	25	**5**	**31**	13	**35**	12	20	**22**	**13**	2	**20**
Komi rep.	19	1	**21**	3	**34**	1	23	4	**23**	11	**22**	14	6	4	**55**	2	**11**
Arkhangelsk obl.	19	2	**13**	3	**39**	1	33	7	**38**	14	**34**	31	5	0	**21**	0	**17**
incl. Nenetsky AO	*19*	*0*	***31***	*0*	***8***	*0*	*24*	-	***34***	-	***10***	-	*0*	*0*	***1***	*0*	***0***
Vologda obl.	19	5	**18**	2	**35**	1	37	12	**38**	7	**33**	32	6	3	**56**	2	**20**
Kaliningrad obl.	19	2	**14**	5	**40**	1	21	3	**22**	21	**16**	19	13	2	**67**	8	**23**
Leningrad obl.	**25**	4	**15**	4	**36**	2	**52**	7	**57**	36	**49**	41	**5**	1	**27**	8	**21**
Murmansk obl.	20	1	**15**	4	**42**	2	20	7	**27**	13	**16**	15	10	11	**23**	3	**10**
Novgorod obl.	**22**	7	**14**	3	**32**	1	**37**	15	**43**	29	**34**	25	**8**	4	**11**	3	**9**
Pskov obl.	23	8	**13**	3	**40**	1	38	12	**36**	25	**40**	28	30	3	**88**	4	**14**
St. Petersburg	14	0	**11**	3	**51**	4	38	18	**39**	37	**34**	33	12	0	**63**	4	**25**

Sources: Goskomstat 2003; MP 2003.

Interestingly, the number of SEs in different sectors of economy (Figure 13) does not necessarily comply with the output of the SEs (Table 17). Examining the share of trade and catering in small enterprise sector, one notices some features that characterise the Russian SEs in general. In nearly all the regions, majority of the enterprises operate among trade, but only in four regions the SEs hold a considerable share of the market. In the North-Western FD there are four regions with over 20% share of the market, namely St. Petersburg (25%), Kaliningrad oblast (23%), Leningrad oblast (21%) and Karelia republic (20%). If the similar comparison is conducted in construction, the results are quite different. The SEs' share of total output in construction sector is higher than the SEs' share of the enterprises operating within the sector. For instance in Pskov oblast 40% of the SEs operate among construction, amounting for 43% of all the construction companies, and

producing 88% of the total out of the construction sector. Similar patter goes for Kaliningrad oblast (67% of the total output), St. Petersburg city (63%), Vologda oblast (56%) and Komi republic (55%).

Some of the most interesting findings in Table 17 are highlighted with blue colour. Considering the republic of Karelia one notes that, even if there are only few SEs operating within agriculture, they produce 22% of the total agricultural output in the region. The same applies to Kaliningrad considering trade and catering; in Kaliningrad the SEs produce 23% of the total output in trade, even though they only represent 16% of all the enterprises among trade. Further, one notices that in Leningrad and Novgorod oblasts manufacturing is one of the most important branches for the small enterprises. Slightly more than half of all the manufacturing enterprises in Leningrad oblast and 37% in Novgorod oblast are small, but the small enterprises do not produce more than 5% and 8% of the total output respectively.

Even if the number of small enterprises, and the SE density are rather high in the North-Western FD in general, the SE development does note much differ from Russia in average. In most of the regions the number of SEs has been fluctuating up and down during the past few years without clear tendency. In 2002 the biggest growth in number of SEs was observed in Pskov oblast (32%), republic of Karelia (30%) and Leningrad oblast (22%). Biggest losses were suffered in Kaliningrad oblast (-34%), republic of Komi (-24%) and Murmansk oblast (-19%). The growth of the small enterprise sector is further described in Table 18. In the table the highest figures of each region are bolded.

Table 18 Growth of the small enterprise sector in the North-Western regions

	1997	1998	1999	2000	2001	2002
Karelia rep.	3100	3900	3700	**4000**	3000	3600
Komi rep.	4000	4700	**5600**	4000	3700	2800
Arkhangelsk obl.	4000	4100	4000	**4800**	4800	4800
Vologda obl.	3900	1400	4900	6000	**6300**	6000
Kaliningrad obl.	6600	9200	**9800**	7600	7600	5000
Leningrad obl.	11900	12100	**12200**	12000	9400	11500
Murmansk obl.	2600	**3900**	3000	2900	3200	2600
Novgorod obl.	2300	2700	**3000**	3000	3000	2900
Pskov obl.	1600	2700	2700	2800	2800	**3700**
St. Petersburg	102700	**111800**	108700	109200	78600	89600

Sources: Goskomstat 2002; 2003.

The table shows that in most of the North-Western regions the SE sector faced a dramatic drop after the financial crisis in 1998. Only in Pskov oblast the sector has been constantly growing. Furthermore, only few of the regions have been able to reach even close to their highest number of small enterprises after the crisis. In Komi and Kaliningrad the trend has been continuously downward, the number of SEs being in 2002 only half of the figure in 1999. In St. Petersburg and Leningrad the number of enterprises fell until 2001, after which it turned to growth in 2002. In most of the regions the SE sector has been fluctuating from growth to drop, signalling thus constant uncertainty of the small enterprises' position in the regional economy.

Despite the government policies targeted to the small enterprises, the SE sector has not shown considerable strengthening in many of the regions. According to a study on small entrepreneurship in the North-Western FD (conducted in 2002), majority of the entrepreneurs see the overall economic climate improving in the regions, but at the same time they consider the government's actions in lightening the SEs' tax burden and developing the business environment inadequate;

majority of the respondent in the study thought the situation had remained unchanged, while only few saw some insignificant improvements. 88% of the respondents viewed the government support necessary for small entrepreneurship, but considered the support being ineffectively organised. (PMSB 2003.) The problems of the small enterprises are acknowledged, and a lot has been done to improve the situation in the regions. Still, many improvements remain to be done, in order to create a functioning small enterprise sector with economic significance.

3.3 Russia's 100 Largest Corporations

In terms of turnover, the energy-related firms continue to dominate the list of Russia's 100 largest corporations (see Appendix 2). 15 firms operating in the oil and natural gas business can be found in this list. Seven out of them rank among the top 10. In addition to oil and gas industry, several companies in other energy-related fields reach to the top 100 – five firms produce electricity and four extract coal. The combined turnover of these 24 firms was almost $ 100 billion in 2002. The sum is considerable, keeping in mind that the Russian GDP at market prices was close to $ 350 billion in that particular year (EIU 2003; Expert 2004).

Even if 24 firms in machine building can also be found in this list, their economic importance is small compared to that of energy-related corporations. The total turnover of these firms in machine building was less than $ 15 billion.

The turnover of 20 metallurgical companies named in the list exceeds $ 20 billion. The five largest metallurgical corporations are Russky Aljumini (aluminium producer), Norilsk Nickel (producer of various non-ferrous metals), Magnitogorsk, Severstal, and Evraz Holding (producers of steel). All of them can be found among Russia's 20 largest corporations. The combined turnover of the five aforementioned metallurgical firms was $ 13 billion.

It is important to note that the number of foodstuffs, beverage, and tobacco producers in the list has increased compared to previous year, indicating the improving competitiveness of domestic production after the 1998 crisis. In the year 2002, the average growth rate of the aforementioned firms was nearly 30%, suggesting faster growth in these companies than in the top 100 in general. In this context, one has to stress two factors: inflation was 15% and Russia's real GDP grew by four per cent in 2002 (EIU 2003; Bank of Finland 2004b).

The market capitalisation of the largest 100 corporations exceeds $ 150 billion, and with this amount they account for the lion's share of the Russian stock market. At the end of March 2004, the market capitalisation of all the listed companies totalled about $ 230 billion (Bank of Finland 2004c).

One needs to stress that the list of the top 100 is to some extent different depending on whether the companies are ranked in terms of their turnover or market capitalisation. The major difference is the strong appearance of telecommunication companies in the market capitalisation ranking. In this ranking, 12 telecoms appear, whereas they are completely absent in the turnover list. The total market value of these 12 telecoms was slightly over $ 15 billion in September 2003. Two telecoms – Mobile TeleSystems and Vimpelcom – account together for nearly two-thirds of the Russian telecoms' total market value.

The market capitalisation of the Russian companies is modest compared to the corporations in the developed West. According to the Financial Times Global 500, the market value of Exxon Mobil (ranking as the 3rd in the global list) was over $ 240 billion i.e. this company alone values more than the whole Russian stock market. Despite all sorts of political and operational risks, which are included in their market value, the Russia corporations seem to be undervalued, especially when one keeps in mind their vast natural resources (Statistics Finland 2004).

Although the 100 largest companies form the majority of the Russian GDP, the stock market and exports, their employment effect is not extremely high. Altogether they employ approximately 3.5 million people, i.e. some 5% of Russia's labour force.

Oil and natural gas

Russia has substantial oil reserves, 5-10% of the world total. Russia produces over 10% of the globe's oil production, even if her own oil consumption is less than 4%. Russia is wealthy in oil reserves but much wealthier in natural gas. Russia holds a third of gas reserves, produces a quarter and consumes a sixth of the world's natural gas (BP 2003). Over 100 companies produce oil in Russia, but despite their large number, oil production is practically in hands of 10 vertically-integrated companies. The five biggest companies produce nearly three-quarters of the nation's crude oil (see Table 19)[7].

Table 19. Crude output of Russia's 10 oil majors (million tonnes)

	2000	2001	2002	2003	2004e	(2004 division)
Yukos	50	58	70	81	89	19 %
Lukoil	74	77	78	79	84	18 %
TNK-BP	29	35	38	62	69	15 %
Surgutneftegaz	41	44	49	54	57	12 %
Sibneft	17	21	26	31	38	8 %
Tatneft	24	25	25	25	25	5 %
Rosneft	13	15	16	20	22	5 %
Slavneft	12	14	15	18	21	5 %
Bashneft	12	12	12	12	12	3 %
Sidanco	11	16	16	…	…	n.d.
Total	323	348	380	421	458	100 %

Source: Troika Dialog 2004a.

Gazprom is practically a gas monopoly in Russia. Gazprom produces some 85% of the natural gas in Russia. Itera, the second largest gas producer in Russia, covers some 3% of the gas production in Russia. The oil companies are responsible for the rest of the gas production.

Electricity

RAO UES is the major producer of electricity in Russia. The group possesses almost three-quarters of installed capacity of Russia's power plants, and it accounts for almost 70% of the total electricity generated, and a third of the total heat produced in Russia. Besides the corporation's giant role in Russia's electricity output, it is the largest employer in the country, providing over 600 000 jobs.

[7] "*The World Bank's report estimated … that the real weight of the oil and gas sector in the Russian economy in 2000 amounted to around 25% of GDP, a share that is likely to have risen further since then. … The Ministry for Economic Development and Trade estimates that about one-third of the growth in 2003 (2.4 %age points) was attributable to the increase in the average oil price*" (EIU 2004, 31-32).

The second biggest employer, Gazprom, gives a job to 'only' 300 000 workers. To put it differently, the reforming of these two business entities is not only a business issue but also a social and political question.

Coal

Russia possesses the world's second largest coal reserves after the USA. Russia's coal reservoirs cover some 16% of the world total. Russia is the sixth largest coal producer with a 5%-stake after China (30%), the USA (24%), Australia (8%), India (7%), and South Africa (5%). In terms of turnover, Russia's four largest coal producers are Yakutugol, Vorkutaugol, Kuzbassugo, and Southern Kuzbass. Their combined turnover, however, is relatively small – less than one billion US dollars.

Chemicals and petrochemicals

Some 700 large and medium-size industrial companies operate in Russia's chemical industry. This industry produces roughly five per cent of the federation's industrial production. In terms of turnover, the three largest chemical and petrochemical companies apart from Sibur are Niznekamskneftehim, Apatit, and Salavaorgnefteorgsintez[8]. The total turnover of this troika amounted to $ 1.7 billion.

Metals and precious stones

Russia ranks as the world's third largest producer of aluminium after China and the USA. Russia produces over a tenth of the world's aluminium production. Two behemoths - Russky Aljumini (RusAl) and Siberian-Urals Aluminium Holding (SUAL) - dominate the Russian aluminium industry. The former controls 75% of the Russian aluminium market, and the latter practically the rest. RusAl is second largest aluminium company in the world after the US company, Alcoa. SUAL holds the sixth place worldwide.

Norilsk Nickel (NN) produces nickel, copper, cobalt, palladium, platinum, gold, silver, selenium, tellurium, technical sulphur, hard coal and other materials for industrial needs. The company is the world's largest producer of nickel and palladium, and one of the largest producers of platinum. Its market share exceeds 10% of cobalt and 3% of copper production worldwide. Domestically NN holds close to a 96%-market share of nickel, 55% of copper and 95% of cobalt production.

Russia is the fourth largest steel producer in the world after China, Japan, and the USA. The global steel production climbed over 900 million tonnes in 2003. Russia's proportion was 6-7% of the world total. Magnitogorsk Metal Kombinat (MMK), Severstal and Novolipetsk Metal Kombinat can be found amongst the world's 20 largest steel companies. MMK's production range is wide, and its total production covers a fifth of Russia's steel output. Severstal accounts for another fifth. Severstal's turnover was close to $ 2 billion in 2002. With this turnover it was the largest company in North-West Russia. The third biggest steel manufacturer in Russia is Novolipetsk Metal Kombinat. West-Siberian Metal Kombinat, Nizhny Tagil Metal Kombinat, and Kuznetsk Metal Kombinat belong to the Evraz Holding. These three Evraz units together with Russia's largest steel producers account for over 80% of the Russian steel production (see Table 20).

[8] Sibur, a subsidiary of Gazprom, comprises around 90 chemical companies ranging from gas processing to manufacturing of tires. Sibur accounts for 25% liquefied gas, 50% of rubber, and 48% of tires produced in Russia.

Table 20. The main steel producers in Russia in 2003

Company	Share of the Russian steel production
Magnitogorsk Metal Combine	21 %
Severstal	19 %
Novolipetsk Metal Combine	16 %
West-Siberian Metal Combine (Evraz Holding)	11 %
Nizhny-Tagil Metal Combine (Evraz Holding)	10 %
Mechel	8 %
NOSTA	6 %
Kuznetsk Metal Combine (Evraz Holding)	5 %
Oskolsk Electro-Metallurgical Combine	4 %

Alrosa is a diamond company engaged in exploration, mining, manufacture, and sales of diamonds. It is one of the world's major rough diamond producers. The company accounts for about 100% of all rough diamonds produced in Russia and for almost 25% of the world's rough diamond output. Kristall (Smolensk) also operates in the diamond business, particularly in the polishing of diamonds. Alrosa with its $ 1700-million turnover ranks as 17th and Kristall (Smolensk) 68th with $ 250 million among Russia's largest corporations.

Wood and paper

A fifth of the world's forests are in Russia. Some 70% of these forests lie behind the Ural Mountains. The main forest reserves in European Russia can be found in the North-Western Federal District, particularly in the Arkhangelsk and the Komi regions. The North-Western Federal District possesses a tenth of the Russian Federation's forests. Six firms in the wood processing industry can be found among the 100 largest companies in Russia. Ilim Pulp was clearly the main player, with the turnover of nearly $ 850 million in 2002. Noizidler Syktyvkar and Titan come thereafter, with a turnover of $ 300 million. The turnover of the Svetogorsk, the Volga, and the Kondopoga was around $ 200 million each.

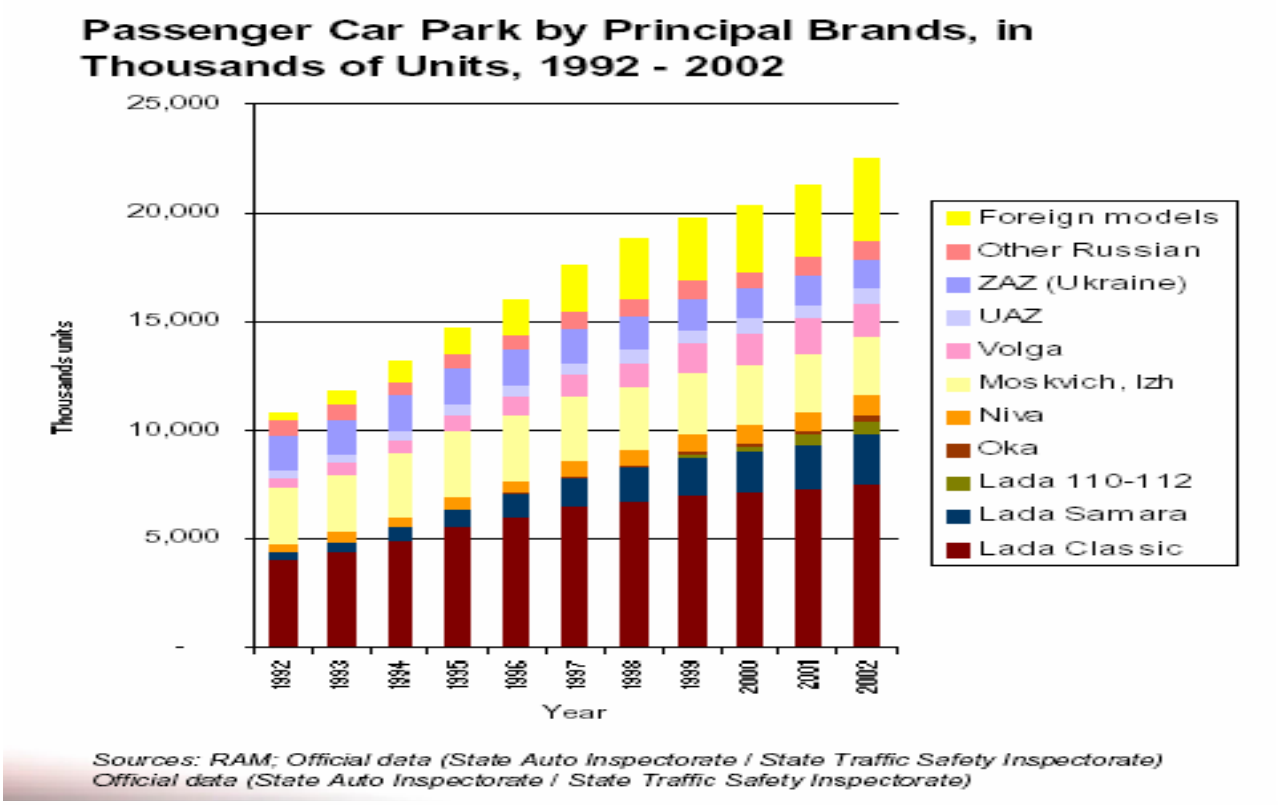
Automobiles

The estimated annual turnover of the Russian automobile industry is some $ 6.5 billion. Cars account for 60%, trucks 25%, and buses 15% of this amount. According to the results of the first six months of 2002, 80 676 trucks, which was 99.9% compared to the figure in the corresponding period a year earlier, 507 844 cars (102.3%), and 31 779 buses (133.1%) were produced in Russia.

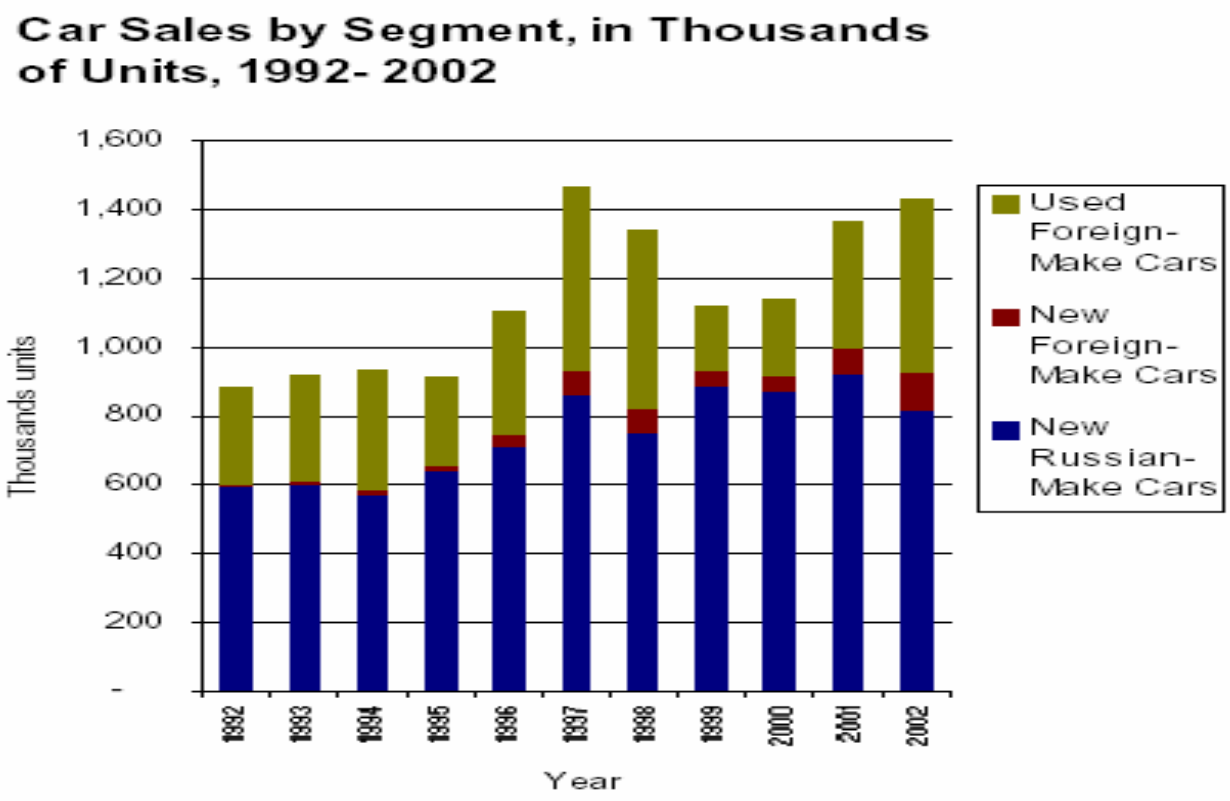
AvtoVaz is the main player in Russia car business. It represents some 70% of the country's automobile production. The company is the largest machine builder in Russia with close to a $ 4-billion turnover. It employs over 120 000 workers, being the fourth largest employer in Russia after RAO UES, Gazprom, and Lukoil. GAZ is the second biggest automobile producer in Russia. The company is controlled by Bazovy Element and Millhouse Capital, which integrated GAZ into their holding company for automotive assets, RusPromAvto. Other units belonging into RusPromAvto are Pavlovsky Bus, Likinsky, Golitsinsky and Kurgansky bus plants, the Avtodiesel factory, and the Ural Automobile Plant. GAZ currently accounts for some 4% of Russian car market and over 60% of light truck and mini-van market.

The Russian car sales approach to 1.5 million units per year. The proportion of the new Russian-made cars is decreasing, while the share of new foreign-made cars and imported cars is increasing (Figure 14).

Figure 14. Russia's automobile market



Sources: RAM; Official data (State Auto Inspectorate / State Traffic Safety Inspectorate)
Official data (State Auto Inspectorate / State Traffic Safety Inspectorate)



Sources: Expert estimate of the RMA Research Center, based on official statistical data (State Auto Inspectorate / State Traffic Safety Inspectorate)

Other machine builders

TVEL is the fourth biggest machine builder in Russia after AvtoVaz, GAZ, and Komsomolskoe-na-Amure Aviation[9]. TVEL is a state-owned holding monopoly, which manufactures and supplies nuclear fuel. In 2002, TVEL-branded nuclear fuel was used at 75 power reactors worldwide, representing 17% of the world market.

The Uralmash-Izhora Group (OMZ) is one of Russia's largest integrated companies in heavy industry. The company designs, engineers, produces, markets and services knowledge intensive equipment and machinery for the on- and offshore oil and gas industry, including transportation, nuclear energy, and mining industries. At the beginning of 2004, OMZ and Power Machines Group[10] announced to merge, a move that will result in the creation of the largest power generation equipment manufacturer in Russia by the end of the year. The proposed name for the merged company will probably be OMZ-Power Machines. This new unit will focus its efforts on the engineering, production and sales of equipment for the power generation industry, including equipment for nuclear power stations. The combined sales of the two companies would place the merged entity amongst the leading European manufacturers of power generation equipment.

Foodstuffs, beverages and tobacco

The main boost for the foodstuffs, beverage and tobacco industry has been the strong depreciation of the rouble in 1998, which made imported food unaffordable for most Russians and led to their substitution by local food products. The majority of producers are serving domestic demand. An indication of the domestic orientation is the fact that 13 foodstuffs, beverages, and tobacco producers can be found in the list of the 100 largest companies in Russia.

Wimm-Bill-Dann, one of Russia's leading producers of juice, yoghurt, and baby food, was established in 1992. During the past 12 years, the firm has grown extremely rapidly, both organically, and particularly via acquisitions. The company is the major player in its field. The company's turnover was over $ 800 million and with this amount it ranked as the 28th largest corporation in Russia in 2002. The company holds roughly a quarter of the Russian juice market and over a third of the country's dairy products. It employs over 15 000 workers.

Baltika is the second largest corporation in the Russian foodstuffs, beverages and tobacco sector. The company's turnover was almost $ 700 million in 2002. Baltika is the market leader in the Russian beer market with a 25%-share. Baltika employs some 8000 workers. The turnover per employee in Baltika is considerably higher than in Wimm-Bill-Dann, some $ 85 000 and $ 50 000 respectively.

Phillip Morris Izora is Russia's largest tobacco producer in terms of turnover. The firm's turnover was close to $ 585 million in 2002. The second biggest tobacco producer with $ 514-million turnover is Petro, which is owned by a Japanese firm. Though these companies are nearly the same

[9] Komsomolskoe-na-Amure Aviation or other corporations producing military equipment or armaments are not described in this report.

[10] Power Machines Group is a leading Russian manufacturer and supplier of equipment for hydro, steam, gas and nuclear power stations, equipment for transmission and distribution of electricity as well as transportation and railway equipment. Enterprises within this group include some of the largest manufacturers and suppliers of heat and electricity generation equipment, such as Leningradsky Metallichesky Zavod, Electrosila, Turbine Blades Plant (St. Petersburg), Kaluga Turbine Works (Kaluga), as well as Energomachexport and its Engineering Center subsidiary.

size, the productivity is clearly higher in Phillip Morris Izora than in Petro. The turnover per employee in Phillip Morris Izora was some $ 730 000, whereas 'only' $ 285 000 in Petro. All in all, the turnover per employee in the Russian tobacco industry is very high compared to most of other fields. When one keeps in mind that the annual average salary in Russia is just $ 2500, the aforementioned productivity figures are extremely high.

Telecommunication

The Russian telecommunication sector has experienced many changes during the past 10 years. In 1992-1993, the fixed telephone market underwent its first restructuring. The state formed one local operator in each of the federation's 89 regions. The state kept 51% of common shares and 22% were sold by regional property funds, which reinforced the regional division of the sector. Simultaneously, the state established a dominant service provider, Rostelecom, for long-distance and international calls. In 1994-1995, the government founded the state holding company, Svyazinvest, controlling almost all the segments of the market and having a license to operate the telephone network until 2004. Svyazinvest possesses controlling stakes in the regional communications companies and in the long-distance telephone monopoly, Rostelecom.

Mobile communication services are developing faster than fixed-line services. MobileTeleSystems (MTS), Vimpelcom, and Megafon are the three dominant players in the mobile communication market. These three companies account for close to 90% of the market, consisting of 42 million subscribers in March 2004, indicating a penetration level of 29%. MTS has over a 37%-market share, Vimpelcom 31%, and Megafon 18%. MTS ranks as eight among the most valuable companies in Russia with the market capitalisation of over $ 7 billion.

MTS was founded by principal owners Deutsche Telecom (37%), Moscow City Telephone Network (20%), ASV (19%), and Siemens (10%). MTS is the largest mobile phone operator in Russia both in terms of subscribers and revenues. The company's net income for the year 2003 was $ 517 million, up 87% on the previous year (see Table 21).

Table 21. Financial highlights of MobileTeleSystems (non-audited)

	2003	2002	Change y-on-y
Revenues ($ million)	2 546.2	1 361.8	87.0%
Operating income ($ million)	922.6	464.4	98.7%
Operating margin	36.2%	34.1%	…
Net income ($ million)	517.2	277.1	86.6%

Vimpelcom's principal owners are a Norwegian Telenor and a Russian investment group Alfa. Both of them possess some 25% of the voting rights, the rest has been sold via the stock market. The company operates under the Bee Line-brand, which is one of the most recognised brand names in Russia. The company is regarded as the market leader in Moscow.

The smallest of the leading troika in the mobile telecommunication is Megafon. Its principal owner is Telia-Sonera, a Swedish-Finnish company. The future of Megafon lies in the regional competitiveness, particularly in North-Western Russia. At the moment, a third of Megafon's subscribers live in the North-Western Federal District.

The North-Western Federal District

Dudarev et al. (2004) "*have identified the four group of industries in North-Western Russia that enjoy a relatively high level of competitiveness and around which the clusters of companies including also related and supporting activities as well as education, R&D etc are formed. They are the forest energy, metals, and the information and communication technologies (ICT) clusters.*

The forest cluster is better developed in the North-West than in other regions of Russia. The largest company in the forest industry, Ilim Pulp Enterprise, is located in St. Petersburg. Kondopoga, Syktyvkar, IP Svetogorsk and Arkangelsk pulp and paper mills are other large forest industry companies located in the region. …

The energy cluster of North-Western Russia specializes in its established areas, which include the electric power industry, power engineering, oil and gas transit from the other Russian regions, and oil refining. The share of the region within Russia's total production of oil and natural gas is small. It may, however, increase significantly, due to the exploration of new large deposits in the north of the Timan-Pechora oil and gas province and in the Barents Sea. …

The product portfolios in the metal cluster have undergone a shift from products with higher added value to primary metals, which are more competitive on the world market, and, recently, backwards to manufacturing of pre-processed components for assembling at machine-building companies. This signalled a change in the industry structure. These changes are associated with gradual dissolution of the large metal-processing agglomerates created in the Soviet period and creation on their basis of the smaller manufacturers with clearer segmentation and specialization. Nevertheless the Severstal holding company, which covers the entire metallurgy cycle – from mining iron ore to the manufacture of metal products, is still the undisputable leader in North-Western Russia in ferrous metallurgy. Non-ferrous metallurgy is represented by a number of smaller companies. The region, however, has the preconditions for significant growth of the aluminium industry: raw materials, seaports, and the unused potential of power plants. …

The brisk development of the ICT cluster in the North-West of Russia can be attributed to the high educational, R&D, and industrial potential of St. Petersburg. The rapid increase in domestic demand, not only in St. Petersburg, but also in other regions of the North-West, has been the driving force behind the development of the telecommunications sector. The mobile operator Megafon which started in this region belongs to the Russian leaders in its segment and is rapidly expanding its activities all over the country. The information technology sector is already exporting a substantial portion of its products (offshore programming). Manufacturers of electronic equipment and components also have export potential but demand is stagnate at the moment. The deepening of cooperation with the ICR cluster of Finland and Sweden that are among the world leaders, may enhance the prospects for successful development of the ICT cluster of North-Western Russia".

Some 20 companies based in North-Western Russia climb to country's top 100, Severstal being the leader with the turnover reaching almost $ 2 billion. Other firms are clearly smaller. Only eight companies, including Severstal, have turnover exceeding $ 0.5 billion. Another observation worth mentioning is the foreign ownership in several large companies, such as Baltika, Phillip Morris Izora, Petro, Svetogorsk, Heineken, Neva, and Rothmanns-Nevo (see Appendix 3).

As a description of Baltika, Phillip Morris Izora, and Petro was already provided above, it is not repeated here, but instead a company profile for Svetogorsk, Heineken, Rottmanns-Nevo, and Vena is given.

Svetogorsk is a subsidiary of International Paper (IP), a US paper producer. In 1998, IP bought a majority interest in Svetogorsk, a Russian pulp and paper corporation situated north of St. Petersburg, from the Swedish corporation Alfa-Laval's Finnish subsidiary Tetra Laval. The venture, which is IP's first in Russia, expanded IP's presence in the Russian and Eastern European market. Svetogorsk is an important paper producer in Russia. Its turnover was some $ 200 million in 2002. The company employed some 2600 workers.

Heineken St. Petersburg was acquired with $ 400 million in 2002. The brewery was previously a part of Bravo Holdings Limited, founded in 1993. The holding produced light alcoholic and non-alcoholic beverages between 1994 and 1998, with beer bottling starting in 1999. The brewery's main products are the local Bochkarev and Okhota brands, as well as Löwenbrau. In 2002, the brewery's turnover exceeded $ 150 million, being clearly smaller than Baltika with a turnover close to $ 700 million.

Vena is another foreign-owned brewery in St. Petersburg. The major shareholders of Vena Brewery are Carlsberg Breweries (50%) and Baltic Beverages Holding (50%). Vena focuses its attention on the development of two beer brands: Tuborg and Nevskoye. Vena brewery's turnover is roughly a half that of Heineken's brewery in St. Petersburg.

British American Tobacco owns in Russia controlling interest in two of the oldest Russian enterprises – Saratov Tobacco Factory and the flagship of the Russian tobacco industry, Yava Factory in Moscow. After the merger with Rothmans International in 1999, British American Tobacco acquired the state-of-the art Rothmans-Nevo factory in St. Petersburg (see Appendix 3).

Dudarev et al. (2004, 244-245) conclude the future development of the main industrial clusters in North-Western Russia as follows: "*the market shares are now substantially redistributed in favour of new players as compared to the early 1990s. We believe that this trend will have a cumulative impact of the successful companies and will lead to further changes in the corporate leaders. …*

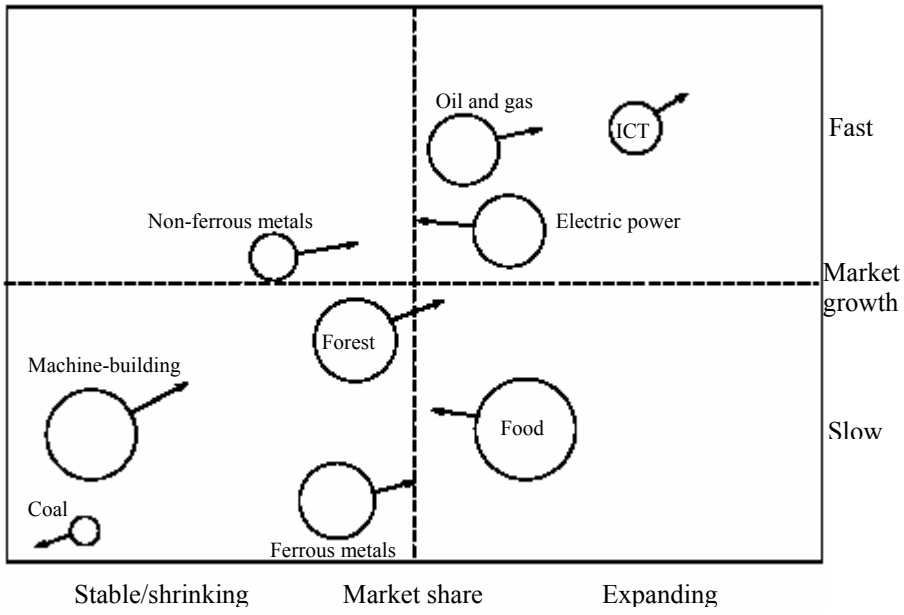
It is important to mention that the significance of this trend will be largely determined by the ability of the domestic companies to offer competitive new products and government support in providing a steady inflow of skilled professionals and access to up-to-date R&D.

In the process of the initial growth many groups have built very diverse business portfolios. Competitive pressures in the near future will lead in the near future to divesture of the non-core and non-related activities by the above mentioned groups. This will add to an overall process of consolidation that could be seen in recent years. As a result more focused and competitive players will emerge, redistribute and concentrate market shares in many segments (primarily in services – hotels, software development, maintenance and cleaning services, etc and manufacturing of components and assembly companies).

Better investment power of the most competitive companies, faster growth of certain new markets will lead to creation of the new industry structure (primarily a shift to a bigger share of services in total production) in the years to come. A major factor behind the changes in the North-Western

Russia economy will be the demand for products on domestic and international markets" (see Figure 15).

Figure 15. Market growth and market share of selected industries in North-Western Russia



Note: Size of the circle corresponds to the relative current production of the industry in question.

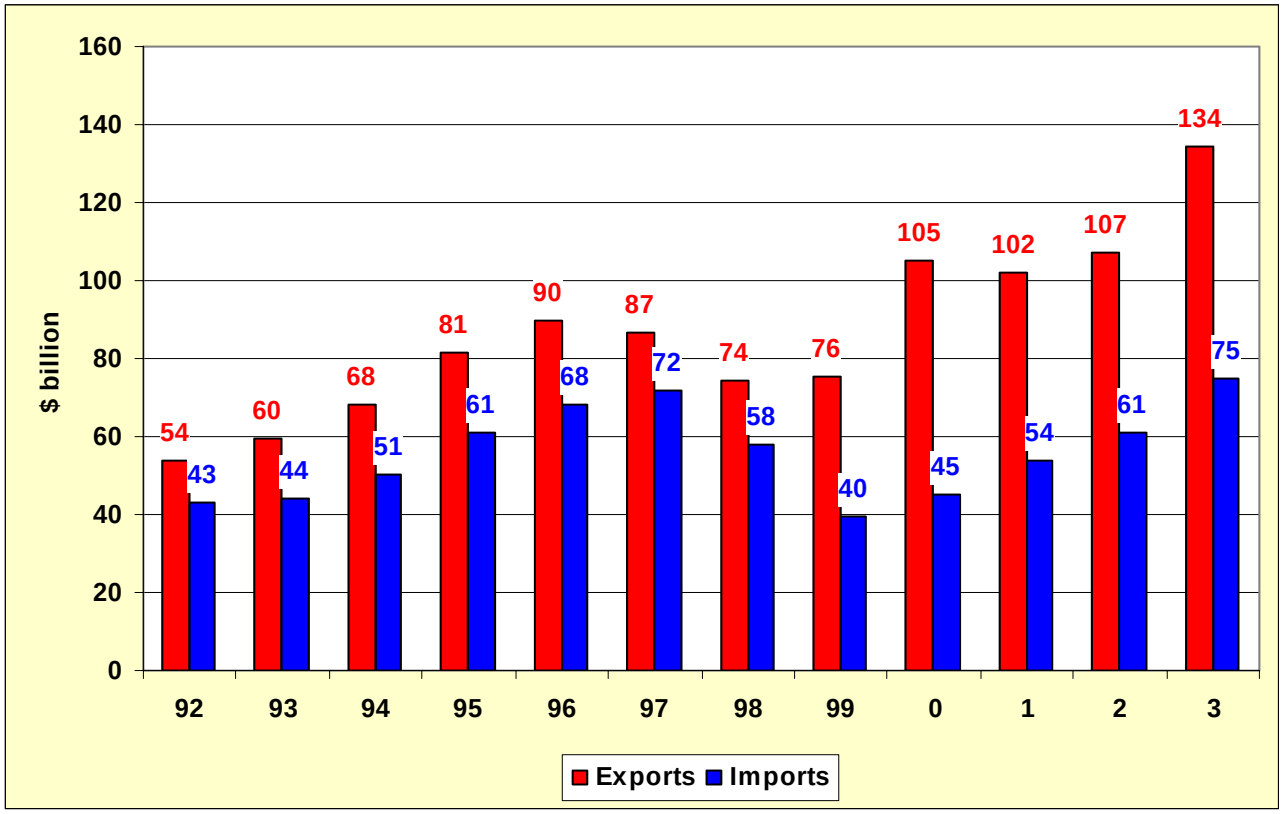
Source: Dudarev et al. 2004, 245.

4 RUSSIA'S FOREIGN TRADE

4.1 Development of the Foreign Trade

Russia's total foreign trade amounted to a bit less than $ 100 billion in 1992, exports being $ 54 billion and imports $ 43 billion. Eleven years later, the country's exports were 2.5 times that of 1992, recording higher than ever after the dissolution of the Soviet Union. The main explanation for such a positive trend is the rapid increase of oil exports from Russia and a positive price development of oil. Currently, Russia is the world's second largest oil exporter after the Saudi Arabia. In the import side, one can clearly see the impact of tremendous rouble devaluation in 1998, leading to a significant decline in imports. Already five years after, Russia's imports reached the record-high (Figure 16).

Figure 16. The development of Russia's foreign trade



Sources: Bank of Finland 2001; 2004a.

The commodity structure of the Russian exports has remained practically unchanged since the disintegration of the USSR despite the rapid growth in the export value. In 2003, crude oil covered 30%, oil products 10%, and natural gas 15% of the total export earnings. Metals, including precious metals, and metal products represented almost 20%. Forest industry products accounted for 4% of the Russian exports. More processed goods, such as machinery (9%) and chemical products (7%), covered only a sixth of the Russian exports, indicating that Russia still acts as a natural resource base in the world economy and the international competitiveness of the Russian industry has developed extremely slowly since the break-up of the Soviet system.

Growing machinery imports may change Russia's role as a natural resource exporter in longer run, provided that the imported machinery is not only targeted for increasing export volumes of natural resources. In 2003, the machinery and equipment represented almost 40% of the total imports. Imports of passenger cars and cellular phones grew particularly fast, indicating increasing proportion of the equipment targeted for consumption. Growing imports of foodstuffs and alcoholic beverages show that the Russians' buying power is increasing.

No dramatic change has recently occurred in the geographical structure of the Russian foreign trade. The EU25 is clearly the main trade partner of Russia representing approximately half of her foreign trade. The share of the CIS is roughly a fifth. Germany is clearly the most important trade country not only within the EU but as a whole. Belarus, Ukraine, and Kazakhstan account for the overwhelming majority of Russia's CIS-trade. China's share is growing and she has already more intensive trade relations with Russia than the USA. The US proportion is surprisingly modest. The US trade with Russia is only slightly bigger than that of Finland (Table 22).

Table 22. The geography of the Russian foreign trade

Russia's main trading partners in 2003

	Imports, USD billion		Import growth, %	Exports, USD billion	
Total (CBR)	75.4		24	135.4	
Total (Customs)	57.4		24	133.7	
EU countries	21.9	38%	20	47.1	35%
Germany	8.1		22	10.4	
Italy	2.4		7	8.5	
France	2.3		22	3.5	
Finland	1.8	3%	21	4.4	3%
UK	1.4		27	4.9	
Netherlands	1.2		17	8.8	
Sweden	1.2		15	0.9	
2004 EU members	4.3	7%	29	16.2	12%
Poland	1.7		31	4.6	
3 Baltic countries	0.7		28	4.5	
CIS countries	13.6	24%	34	20.5	15%
Belarus	4.9		23	7.6	
Ukraine	4.4		37	7.6	
Kazakhstan	2.9		52	3.3	
Other countries	17.5		22	49.9	
China	3.3	6%	37	8.4	6%
US	2.9	5%	-2	4.2	3%
Japan	1.9		90	2.4	
Switzerland	0.5		28	5.8	

Sources: State Customs Committee and CBR

Source: Bank of Finland 2004b.

4.2 Foreign Trade of the Russian Regions

According to Goskomstat (2004), the Central Federal District accounts for a third of exports and a half of imports. The respective figures for the City of Moscow and the surrounding Moscow Oblast calculated together are 28% and 45%. Though the Central district and particularly Moscow dominate Russia's foreign trade, one should not forget that their proportion is overemphasised due to two reasons. First, the headquarters of Russia's largest corporations are usually based in Moscow, and hence, they artificially add to the region's export value, though their production is located in other Russian regions. Second, Moscow acts as a domestic re-distribution centre i.e. only a part of the imported goods are ultimately consumed within the city.

Despite these reservations, Moscow and the Moscow Oblast form the main foreign trade centre of Russia. As a comparison, the stake of St. Petersburg together with the Leningrad Oblast is 4% of Russia's exports and 14% of imports. The respective figures for the Tyumen Oblast, the oil and natural gas centre of the country located in the Ural Federal District, are 19% and 2%.

Moscow is the foreign trade centre of both non-CIS and CIS trade, though its import share in the CIS business is smaller. In the import side, the North-West district is clearly more oriented towards the West, whereas the CIS trade becomes emphasised in the Volga, Ural, and Siberian districts. Together these three aforementioned districts represent approximately a half of Russia's CIS trade. The CIS proportion of the Far Eastern District is close to zero due to the emphasised trade relations with China, Japan, and other Asian countries.

Table 23. The foreign trade of the Russian regions in 2002

Value ($ million)	**Non-CIS**		**CIS**		**All foreign trade**	
Federal district	Exports	Imports	Exports	Imports	Exports	Imports
Central	28423.6	19557.3	3345.0	2635.6	31768.6	22192.9
North-Western	8454.8	8164.4	437.0	291.5	8891.8	8455.9
Southern	3510.2	1802.4	589.3	559.5	4099.5	2361.9
Volga	14494.6	2243.9	2390.5	884.2	16885.1	3128.1
Ural	22107.5	1278.3	1853.4	899.3	23960.9	2177.6
Siberian	9597.5	1489.8	1117.2	823.3	10714.7	2313.1
Far Eastern	3770.2	1340.8	16.7	18.3	3786.9	1359.1
Total	**90545.5**	**35920.5**	**9749.1**	**6111.7**	**100294.6**	**42032.2**

Share (%)	**Non-CIS**		**CIS**		**All foreign trade**	
Federal district	Exports	Imports	Exports	Imports	Exports	Imports
Central	31	54	34	43	32	53
North-Western	9	23	4	5	9	20
Southern	4	5	6	9	4	6
Volga	16	6	25	14	17	7
Ural	24	4	19	15	24	5
Siberian	11	4	11	13	11	6
Far Eastern	4	4	0	0	4	3
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Goskomstat 2003.

Since Russia's non-CIS imports can be regarded as Western companies exports to Russia, it deserves a special attention here. Ten most active regions out of Russia's 89 regions account for almost 80% of the federation's non-CIS imports. Russia's two major cities, Moscow and St.

Petersburg, suck over half of non-CIS imports. As already mentioned earlier, one should not interpret this finding so that the citizens of these two cities would consume a half of the Western imports, as these cities act as re-distribution centres. Despite their re-distribution role, it seems likely that these two cities together with the regions bordering them consume the major stake of Western imports. Moscow, its surrounding oblast, and St. Petersburg together with the Leningrad Oblast represent 65% of Western commodity inflows. This is a statistical fact that Western company aiming at selling its goods in Russia ought to keep in mind.

Kaliningrad ranks as fourth mainly due to two reasons. First, it is located apart from the Russian mainland between Lithuania and Poland, and therefore, it is highly dependent on imported goods. Second, the special economic zone operating in the region suck imported goods, which are later on transported to the Russian mainland after certain value adding process has taken place in the region (a practice used for avoiding Russia's import tariffs).

Krasnodarsk Krai, located on the eastern coast of the Black Sea, is Russia's Southern trade centre, particularly for goods imported from Turkey. Similarly, Primosk Krai is Russia's Asiatic trading place, particularly for imports arriving from China and Japan.

Samara and Sverdlovsk are Russia's main industrial regions which are heavily dependent on imported machinery from the West. Tuymen, as already indicated above, is Russia's oil and gas centre, requiring a lot of Western technology to maintain and increase its oil and gas production (see Table 24).

Table 24. Top 10 regions concerning non-CIS imports

Rank	Region	Non-CIS imports ($ mn)	Share of total non-CIS imports (%)	Population share of Russia's total (%)	Non-CIS imports per capita ($)
1)	Moscow	14732.6	41	6	1419
2)	St. Petersburg	4731.7	13	3	1015
3)	Moscow oblast	2803.5	8	5	424
4)	Kaliningrad oblast	1544.2	4	1	1617
5)	Leningrad oblast	967.7	3	1	580
6)	Krasnodarsk krai	872.7	2	4	170
7)	Primorsk krai	754.7	2	2	364
8)	Samara oblast	659.6	2	2	204
9)	Tyumen oblast	566.4	2	2	173
10)	Sverdlovsk oblast	487.9	1	3	109
					Federation average
	Top 10	**28121.0**	**78**	**29**	**247**

Sources: Goskomstat 2003; author's calculation.

Non-CIS imports per capita are highest in regions with a small population but large natural reserves, particularly oil reserves. If one excludes the regions inhabiting less than 500 000 people, the highest non-CIS imports per capita ratio can be found in Kaliningrad. Kaliningrad is followed by Russia's two main cities Moscow and St. Petersburg (see Map 9 and Table 25).

Map 9. Russian regions with higher-than-average non-CIS imports per capita

Table 25. List of Russian regions where non-CIS imports per capita exceed the federal average ($ 247)

Region	Non-CIS imports ($ million – in 2002)	Population (1000 in 2002)	Non-CIS imports per capita ($)
Taimyrsky (Dolgano-Nenetsky) AO	101.4	40	2535.0
Aginsky Buryatsky AO	160.6	72	2230.6
Kaliningrad oblast	1544.2	955	1617.0
Nenetsky AO	65.3	42	1554.8
Moscow	14732.6	10383	1418.9
St. Petersburg	4731.7	4661	1015.2
Republic of Altay	150.9	203	743.3
Leningrad oblast	967.7	1669	579.8
Sakhalin oblast	232.8	547	425.6
Moscow oblast	2803.5	6619	423.6
Primorsk krai	754.7	2071	364.4
Yamalo-Nenetsky AO	133.9	507	264.1
Magadan oblast	47.8	183	261.2
Khanty-Mansiisky AO	369.3	1433	257.7
Chukotsky AO	13.9	54	257.4

Sources: Goskomstat 2003; author's calculation.

4.3 Russia's 100 Largest Exporters

Russia's 100 largest exporting companies accounted for over 60% of the country's total export revenues in 2001. In fact, 20 largest exporters alone form over 50% of the Russian Federation's export earnings. Ten out of these 20 corporations operate in oil and gas industry (including Gazprom-owned chemical unit Sibur) and another half operate in the metal industry, except TVEL supplying nuclear fuel (see Appendix 4).

The overwhelming majority of Russia's 100 largest exporters operate in the natural resource-based industries. Should one exclude these industries – oil and natural gas, metallurgy and mining, coal extraction, and wood processing industry – from the list of the largest exporters, only approximately 30 corporations remain in the list. The combined value of their exports is only $ 4.5 billion i.e. less than 5% of Russia's total exports. Chemical and petrochemical industry and machine building dominate the list of the non-natural based-industries (see Table 26).

Table 26. Russia's largest exporters in non-natural-resource based industries[11]

Rank among top 100	Company/holding	Industry	Exports ($ million)		Number of export countries
			2001	2000	
16.	Sibur	Chemical and petrochemical industry	690.4	179.3	66
19.	TVEL	Machine building	538.0	458.0	23
23.	Niznekamskneftehim	Chemical and petrochemical industry	355.4	415.8	44
27.	Fosagro Apatit Group	Chemical and petrochemical industry	257.6	70.1	32
28.	RAO UES	Electricity production	254.1	212.3	12
29.	Acron	Chemical and petrochemical industry	246.5	222.2	45
31.	AvtoVaz	Machine building	242.3	277.0	38
33.	Uralkaly	Chemical and petrochemical industry	191.0	242.0	35
34.	Evrohim	Chemical and petrochemical industry	187.3	162.2	46
35.	Kazan Helicopter Plant	Machine building	170.8	91.9	14
38.	Bashkirneftehim	Chemical and petrochemical industry	153.6	442.8	24
40.	Agrochemical corporation Azot	Chemical and petrochemical industry	149.7	125.6	50
44.	Togliattiazot	Chemical and petrochemical industry	127.4	165.8	5
50.	Sibirsky Aluminium	Machine building	100.7	190.0	42
51.	Kuibyshevazot	Chemical and petrochemical industry	99.4	104.6	23
52.	Motovilihinskie Plants	Machine building	96.6	n.d.	4
57.	Sayanskhimplast	Chemical and petrochemical industry	82.4	86.0	1
59.	Ulan-Ude Aviation Plant	Machine building	71.6	29.0	6
63.	Ural Automobile Plant	Machine building	60.2	20.0	15
73.	Sibmash Holding	Machine building	43.1	--	3
75.	Silovye Machiny	Machine building	40.2	94.5	36
76.	Kaustik	Chemical and petrochemical industry	40.2	44.7	23
81.	Schekinoazot	Chemical and petrochemical industry	37.4	45.3	26
82.	Ufahimprom	Chemical and petrochemical industry	37.2	35.7	17
85.	Kazanorgsintez	Chemical and petrochemical industry	36.1	46.8	22
87.	Mars	Foodstuffs	35.3	26.7	18
88.	Energomash	Machine building	34.0	46.6	30
91.	Volzhsky Orgsynthese	Chemical and petrochemical industry	32.3	30.4	18
96.	Energya (Korolev Rocket and Space Corporation)	Machine building	26.9	67.5	7
99.	Soda	Chemical and petrochemical industry	26.1	20.9	27
100.	V. P. Glushko SMU Energomash	Machine building	25.9	19.0	2

Source: Expert 2002.

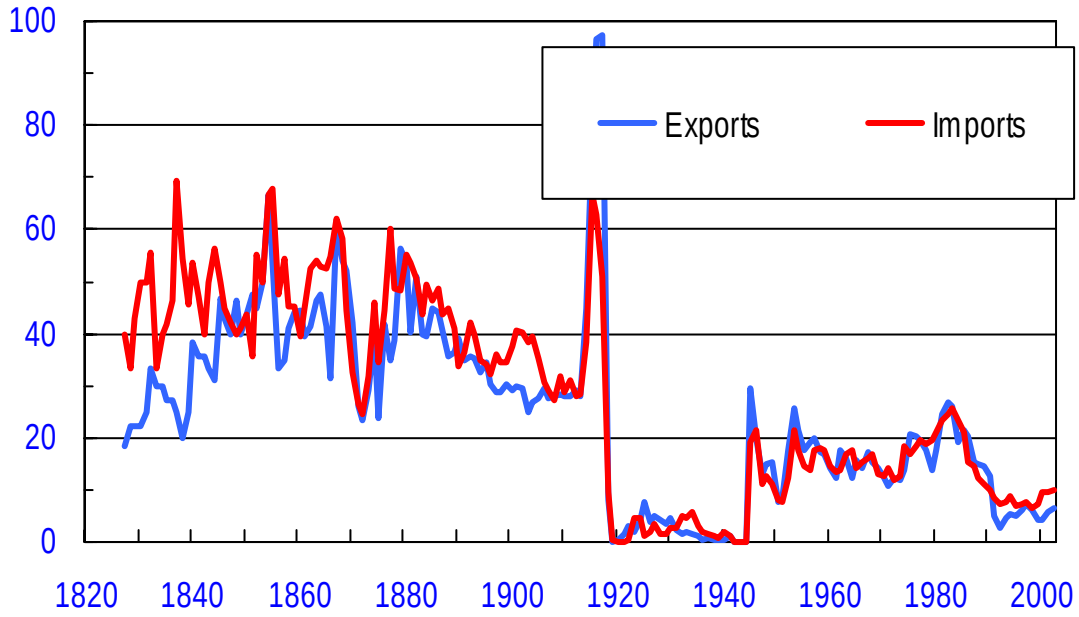
[11] The ranking of Russia's largest exporters has changed from what it used to be in 2001, but unfortunately no up-date of the list has been published by the Expert Rating Agency by the end of May, 2004.

4.4 Finland's Trade with Russia

In 2003, Finland's trade with Russia was some five times that of 11 years earlier i.e. the Finnish-Russian trade has grown faster than Russia's foreign trade generally, indicating that Finland has strengthened her position as Russia's foreign trade partner. Even if Finland is a relatively small economy, Finland accounts for some 3% of the Russian foreign trade, and with this share Finland ranks among Russia's ten largest trade partners.

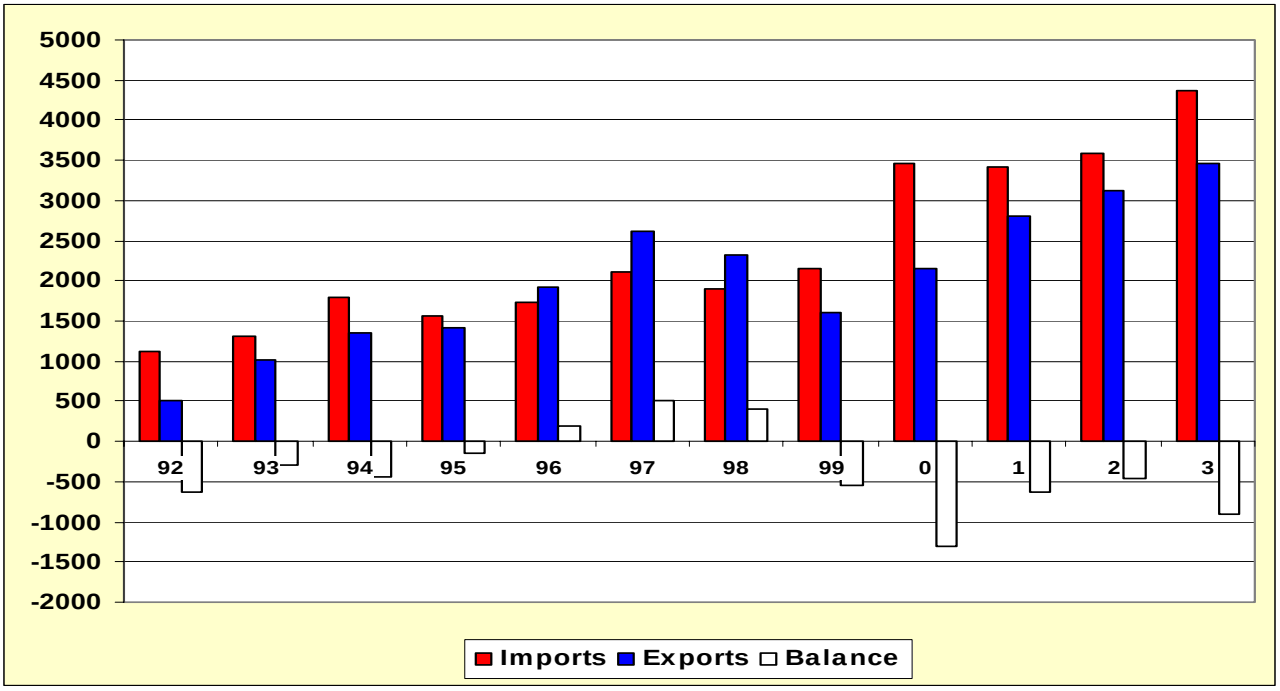
In the period of January-February 2004, Russia was Finland's most significant import partner with 14% and the fifth biggest export destination of Finland with 7% after Germany, the USA, Sweden, and the UK. According to Kotilainen et al. (2003), Russia will become Finland's most important trade partner already by the end of this decade, provided that the rapid trade growth continues with Russia and the trade with Finland's other main trade partners will remain unchanged (see Figures 17 and 18).

Figure 17. The share of Russia/USSR in Finland's foreign trade



Source: Kotilainen et al. 2003.

Figure 18. Finland's trade with Russia (€ billion)



Source: Customs Finland 2004.

Despite the rapid trade growth, the commodity structure of the Finnish-Russian trade has not changed significantly since the beginning of the 1990s. Finland's exports to Russia still consists chiefly of machinery, chemicals, and paper (altogether 70%), whereas oil and oil products, natural gas, and timber cover almost the corresponding share of Finland's imports from Russia (see Table 27).

Table 27. Finland's trade structure with Russia (1-11/2003)

Finland's exports	Share	Finland's imports	Share
Machinery, equipment and vehicles	47%	Oil and oil products	42%
Chemicals	15%	Natural gas	12%
Paper and board	8%	Timber	11%
Others	30%	Others	35%
Total	**100%**	**Total**	**100%**

Source: Customs Finland 2004.

The total number of the Finnish companies exporting to Russia is close to 4000. The majority of them are small and medium-sized enterprises (SMEs). Even if eight firms out of 10 exporting to Russia belongs to the SME group, their share of the export value is less than 30%. The respective figure in Finland's overall exports is even smaller, less than 15%. This statistical fact breaks the myth that the SMEs would have more difficulties than larger corporations in exporting to Russia. While breaking the myths, one has to recognise that the outward expansion of the SMEs is usually directed to the geographically close markets, such as Estonia, Sweden, and naturally Russia.

The large enterprises overwhelmingly dominate Finland's imports from Russia. Large companies account for 90% of Finland's imports from Russia, leaving only a tenth for the SMEs. The SMEs cover almost a third of Finland's overall imports. The large-company domination in the Finnish-Russian trade is logical, when one keeps in mind that its import structure i.e. Finland imports

mainly natural resources from Russia, and usually this task is executed by large corporations (see Table 28).

Table 28. Finnish enterprises' trade with Russia by enterprise size in 2003

Enterprise size[12]	Number	Exports (€)	Share of exports (%)	Annual change (%)
Large	588	2 327 643 727	67.1	12.4
SME total	**3 099**	**955 827 708**	**27.6**	**9.2**
Medium-sized	562	387 071 048	11.2	-0.3
Small	759	148 636 287	4.3	8.3
Micro	1 778	420 120 373	12.1	20.1
Miscellaneous	145	184 009 545	5.3	1.5
Total	**3 832**	**3 467 480 980**	**100**	**10.8**

Enterprise size	Number	Imports (€)	Share of imports (%)	Annual change (%)
Large	233	3 920 598 467	89.8	21.0
SME total	891	409 921 478	9.4	35.0
Medium-sized	134	83 095 128	1.9	-8.8
Small	147	34 522 987	0.8	2.3
Micro	610	292 303 362	6.7	63.5
Miscellaneous	66	34 664 605	0.8	59.6
Total	**1190**	**4 365 184 550**	**100**	**22.4**

Source: Customs Finland 2004.

[12] The EU definition for the enterprise sizes is as follows:

Medium-sized:	headcount < 250	turnover ≤ € 50 million	or	balance sheet total ≤ € 43 million
Small:	headcount > 50	turnover ≤ € 10 million	or	balance sheet total ≤ € 10 million
Micro:	headcount > 10	turnover ≤ € 2 million	or	balance sheet total ≤ € 2 million

If any of the parameters (headcount, turnover or balance sheet value) exceed those mentioned in the above table, the enterprise belongs to the upper group. For instance, an enterprise with 250 employees is regarded as a large enterprise despite its turnover and balance sheet indicating another category.

5 FOREIGN DIRECT INVESTMENTS INTO AND FROM RUSSIA

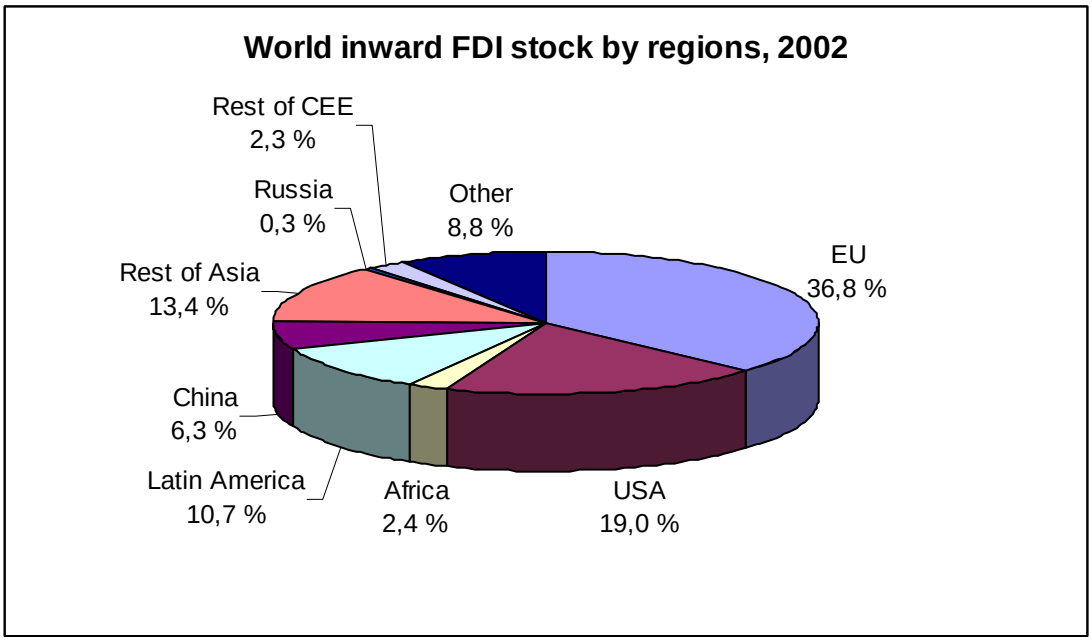
5.1 Foreign Direct Investment in Russia

5.1.1 Russian Inward FDI in an International Comparison

Despite of her enormous natural resources and market potential of 145 million inhabitants, Russia´s achievements in attracting foreign direct investments (FDI) have been modest. According to Goskomstat (2004), the Russian FDI stock in the end of 2003 was roughly $ 26 billion.

Most of the world FDI flows takes place between developed economies, mainly the EU and the USA. Among the emerging markets, China has the most successful in attracting foreign capital: the inward FDI stock of China accounts 6.3% of the world's total, whereas the share of Russia is merely 0.3%, as illustrated in Figure 19. (UNCTAD 2003.)

Figure 19. World FDI stock by regions in 2002

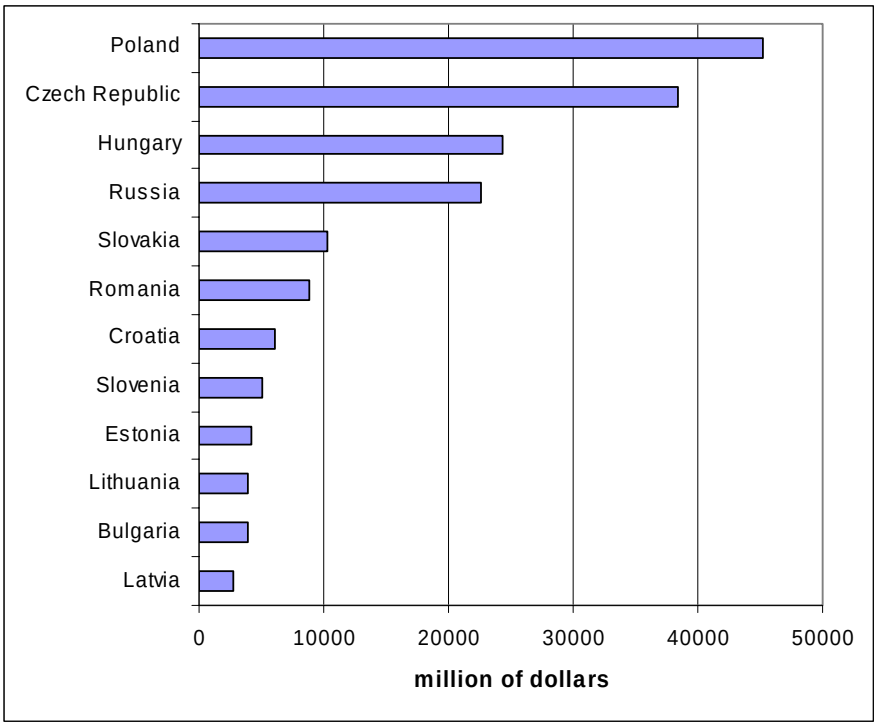


Source: UNTAD 2003.

Even among the Central and Eastern European Countries (CEECs) that together cover some 2.6% of world inward FDI stock, Russia's success has been very modest. Poland has managed to receive more than double the amount of FDI than Russia, and also Czech Republic and Hungary have done better than Russia in absolute figures, as illustrated in Figure 20. (UNCTAD 2003.)

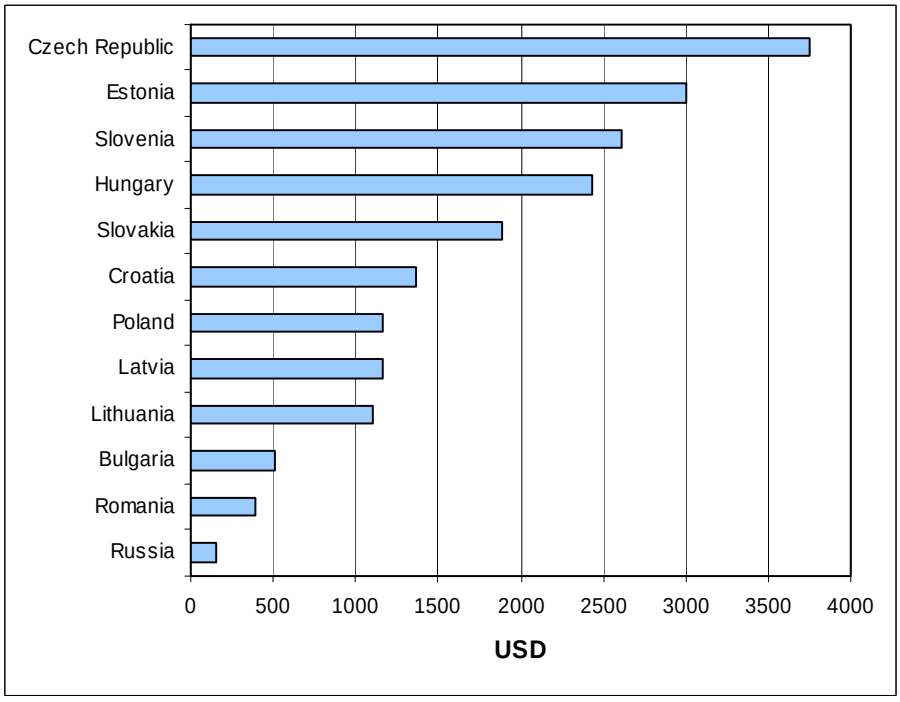
When comparing the FDI stock per capita in the selected CEE countries, the situation of Russia looks even worse. Russia has received the least FDI per capita, about $156, while the same per capita figure for the Czech Republic is $ 3 751 and for Estonia, Slovenia and Hungary more than $2000. Even Romania has attracted two and half times more FDI per capita than Russia (see Figure 21).

Figure 20. FDI inward stock in selected Central and Eastern European countries, 2002



Source: UNCTAD 2003.

Figure 21. FDI stock per capita in selected Central and Eastern European countries, 2002

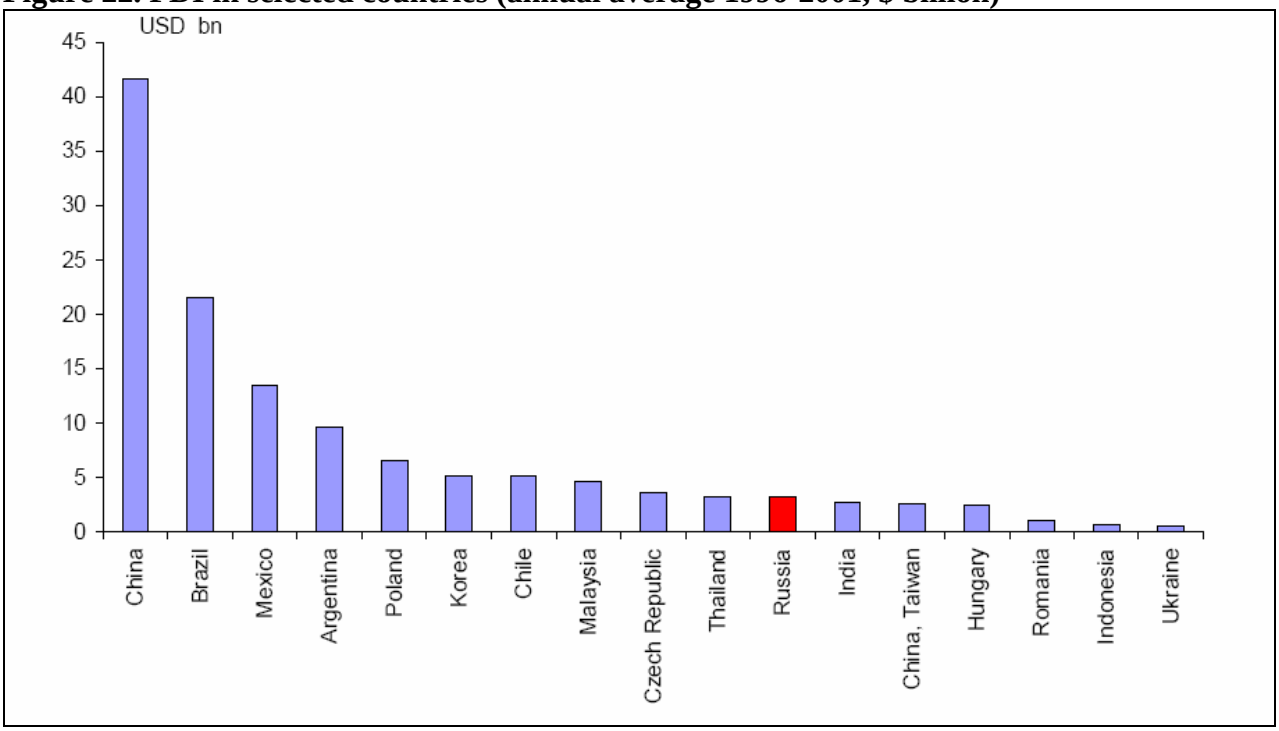


Sources: UNCTAD 2003; CIA 2004; author's calculations.

The annual FDI inflow to Russia has been around $ 4 billion, whereas in China the inflows have been more than ten times higher, as illustrated in Figure 22. Thus, unlike in other CEE countries and in China, the role of foreign direct investment has not been significant in Russia's economic development. In Russia, the share of FDI stock of the country's GDP was only 6.5% in 2001, whereas the CEECs' average was 20.9% and the world average 22.5%. (UNCTAD 2003;

Goskomstat 2003.) In 21st century, the share of annual FDI inflows to Russia have been only 1-3% of her GDP. (Lainela 2004.)

Figure 22. FDI in selected countries (annual average 1996-2001, $ billion)



Source: EBC Monitoring Survey 2003.

Although the stability and predictability of the Russian economy have improved considerably since the 1990s, the country can still not offer a specifically favourable business environment. (Lainela 2004.) In a survey among foreign investors in Russia, most of the problems mentioned as barriers to investment were of an institutional or legislative nature. The top barriers were inefficient bureaucracy, corruption, the unsatisfactory work of customs and customs legislation, and poor work of courts. Also tax legislation, problems with infrastructure, competition, corporate governance, insufficient protection of intellectual property rights, poorly functioning banking system, and the lack of International Accounting Standards were viewed as investment barriers by some of the respondents. (EBC Business Monitoring Survey 2003.)

With its size and natural resources, the Russian Federation has a great potential to attract resource seeking, market seeking and efficiency seeking FDI. However, until recently the FDI inflows have been well below potential. Even though Russia has not yet realized her full potential in attracting FDI, there are distinct signs of greater investor interest. The FDI inflow to Russia in 2003 was $ 6781 million – 69.4% higher than the year before.

5.1.2 FDI into Russia – Division by Countries of Origin

The biggest direct investors to Russian economy during the recent years have been the USA, Cyprus, Germany and the Netherlands. (Goskomstat 2003.) The following table indicates the development of the FDI inflow during 1995 and 2001-2003 as well as the shares of the most important investor countries.

Table 29. FDI inflow to Russia on 1995 and 2001-2003, division by major investor countries

	1995	***2001***	***2002***	***2003[1]***
FDI inflow, total (million USD)	2 020	3 980	4 002	6 781
Major investor countries, share of total FDI (%)				
USA	32	27	16	
Cyprus	…	13	14	
The Netherlands	2	14	13	
Germany	10	12	10	
UK	4	7	8	
Japan	1	5	7	
Finland	…	…	4	
The Virgin Islands	…	2	3	
Luxembourg	…	…	3	
Switzerland	10	1	2	
France	5	1	1	
Austria	3	1	…	
Belgium	4	…	…	
Sweden	3	…	…	
Other	26	17	19	
Total	100	100	100	

[1] Country divisions not available
Source: Lainela 2004.

The United States of America and Germany have been among the four biggest investors almost every year of the past few years. The relatively high share of the Netherlands as a source of FDI to Russia can be explained by the fact that it is a domicile for many multinational corporations. Also Japan has steadily increased her share of Russian FDI. (Lainela 2004.)

The changes in the proportions of the investor countries indicate the increasing return of the Russian capital: for example Cyprus appeared in the list of ten major investors on 1999 and has been among the four biggest since 2001. (Lainela 2004.) Measured by FDI stock, Cyprus has already become the most prominent foreign direct investor to the Russian economy (see Table 30). Also the significant positions of Luxembourg, Switzerland and the Virgin Islands in Russian FDI statistics are likely to be signs of the same trend, as those countries are well known tax havens and landing places for Russian capital (see Grigoryev – Kosarev 2000; Kalotay 2003, Kauppapolitiikka 2004).

Table 30. Countries with the most prominent FDI stock in the Russian economy in the end of 2003

Country	FDI stock in the end of 2003, $ mln.	Share of total Russian FDI stock, %
Total:	26 131	100
Cyprus	5 037	19
USA	4 297	17
UK	2 828	11
The Netherlands	2 796	11
Germany	2 542	10
Japan	1 353	5
Switzerland	822	3
Virgin Islands (UK)	718	3
France	331	1
Luxemburg	222	1

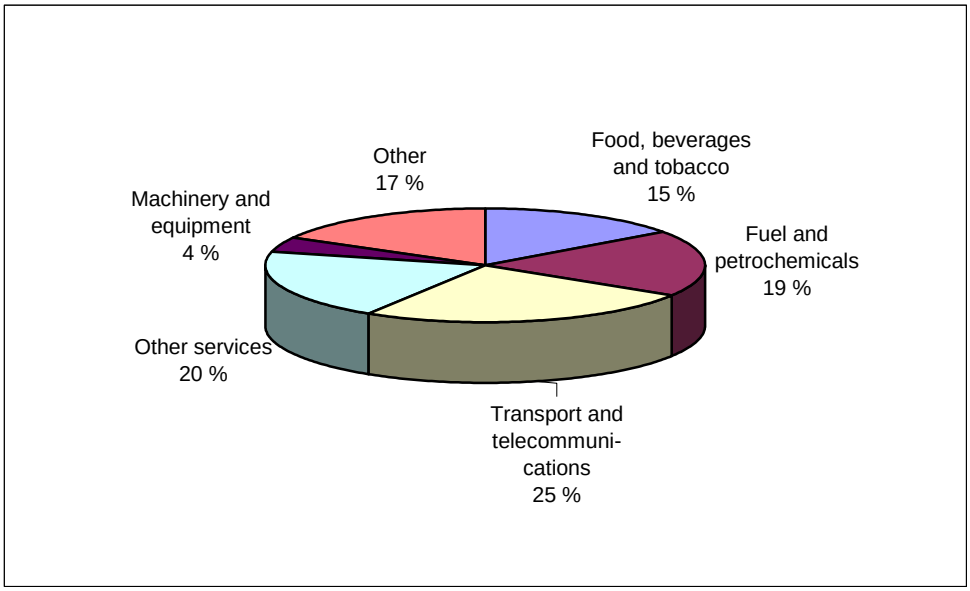
Source: Goskomstat 2003.

By the end of 2003, the FDI stock of Russia was about $ 26.1 billion. In addition to Cyprus, also the USA, the UK, the Netherlands, Germany, Japan, Switzerland, and France hold prominent FDI stocks in Russia. Together the share of the ten biggest investor countries of total FDI stock is over 80%. (Goskomstat 2003.) The European Union, with its current 25 member countries, accounts for more than 50% of total FDI stock in Russia.

5.1.3 The Industry Composition of Russian Inward FDI and Major Investor Companies

Most FDI into Russia has gone to the sectors of economy that have been successful in exports or have grown fast due to the increasing domestic demand. These are fuel and petrochemicals, food, beverages and tobacco industries, and transport and telecommunications. Their share of Russian inwards FDI stock in 2002 was almost 60%, whereas investments to machinery and equipment building covered only 4% of total FDI stock. The industry composition of Russian FDI stock is illustrated in Figure 23. (UNCTAD 2003; Lainela 2004.)

Figure 23. Industry composition of Russian inward FDI stock in 2002



Source: UNCTAD 2003.

Foreign direct investment inflow was about $ 6.8 billion in 2003. Half of that went to industry and one fourth to trade, whereas construction, transport and telecommunication, finance and agriculture got each only 1-4% of total FDI inflow. The share of transport and telecommunications has been relatively small during the past two years. In 1999-2001 its share was 12-21% of annual FDI inflow, whereas last year only 4%. The share of trade and catering has grown steadily in recent years (see Table 31). (Goskomstat 2003; Lainela 2004.)

Table 31. Division of annual FDI inflow by sectors of industry (% of total)

	1998	1999	2000	2001	2002	2003
FDI inflow (bln $)	**3.361**	**4.260**	**4.429**	**3.980**	**4.002**	**6.781**
Division by sectors of economy (% of total)						
Industry	59	61	42	44	48	50
Power generation	0	0	0	0	1	0
Fuel industry	9	28	10	11	17	28
Chemical industry and metallurgy	4	2	3	5	5	3
Machine-building and metal-work	4	3	5	8	7	5
Forest industry and wood processing	3	3	3	3	3	4
Construction materials industry	1	1	1	1	1	2
Food, beverages and tobacco	35	23	19	13	11	5
Other industries	2	1	1	2	3	3
Agriculture	0	1	1	1	1	1
Construction	3	1	1	1	2	2
Transport and telecommunication	4	12	21	17	3	4
Trade and catering	15	14	19	19	24	24
Finance and insurance	2	1	1	1	1	3
Other sectors	17	10	16	17	21	16
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Goskomstat 2003.

As the table shows, inside the industrial sector, the most significant changes during the past couple of years has been the increasing share of fuel industry (from 10% in 2000 to 28% in 2003) and the

decreasing share of food industry (from 35% in 1998 to only 5% in 2003.) The relative shares of the forest and wood processing industry, the chemical industry and metallurgy, and the machine-building and metal-work, have remained fairly stable during the past few years. (Goskomstat 2003; Lainela 2004.)

The main motivation to foreign direct investment to Russia has mostly been either resource seeking or market seeking. A study made in 2003 among foreign investors mainly in manufacturing sector reported that the most important reason for FDI was the size of the market. Companies in natural resource sector stated the proximity of inputs as a leading motivation for FDI, as expected. (EBS 2003.)

Another study on the same year confirmed the findings of market seeking motive as the main reason for FDI: over half of the respondents indicated a promising domestic market potential as a motive, and a proximity to regional markets was mentioned second. A closer look at the FDI projects (see Table 32) that started in 2002-2003 attests that the greatest prospects still seem to be in natural resources, followed at a distance by electronics, automobiles and R&D. However, Russia seems to offer more and more potential for efficiency and strategic assets seeking FDI too. (UNCTAD 2003.)

Table 32. Some major foreign investors and investment projects in Russia 2002-2003

Investor	*Home country*	*No. of projects*	*Total value ($ million)*	*Description / motive*
Royal Dutch Shell Group	Netherlands	2	7 500.0	Sakhalin oil and gas project / natural resources
TotalFinaElf	France	1	2 500.0	Vankorsky oil field exploration & development / natural resources
Metro	Germany	5	1 705.0	Hypermarket chain building / market seeking
IKEA	Sweden	9	798.8	Hypermarket chain building / market seeking
Pfleiderer	Germany	1	647.0	Chipboard production in Novgorod / efficiency & exports
Fleming Family & Partners	UK	3	432.4	Developing diamond and gold deposits in Lomonosov and Chita/ natural resources
Volkswagen	Germany	2	400.0	Automobile works / market seeking
Segura Consulting Assoc. (SCA), Ferrovial and Caixa Bank	Spain	1	319.0	Hotel and office complex in Moscow / market seeking
Renault	France	1	250.0	Passenger car plant in Moscow / market & efficiency seeking
Phillip Morris	USA	1	240.0	Cigarette factory in St. Petersburg / market seeking
Basse Sambre E:R:I SA	Belgium	1	210.0	Glass sheet factory in Stavropol region
Baltic Beverage Holding (BBH)	Denmark	6	196.0	e.g. brewery in Khabarovsk exporting to China / exports & market seeking
Merloni TermoSanitari	Italy	4	159.0	e.g. electronic water heater manufacturing / market seeking
Stora Enso	Finland	5	154.0	e.g. corrugated board factory and recycling plant
Arcelor	Luxembourg	1	120.0	JV in steel production for automotive market in Cherepovets / market seeking
Imasa	Spain	1	110.0	…
Kaindl	Austria	1	107.0	Wood board factory in Egorievsk
BASF	Germany	1	100.0	The company has chemical and computer hard ware production in Russia
Siemens	Germany	1	100.0	The company has 9 JV's in Russia and it built a new office building in Moscow in 2003.
KRKA	Slovenia	1	20.0	R&D centre for new generic pharmaceuticals / strategic assests
Mars Corporation	USA	1	20.0	Fodder factory in Novosibirsk / market seeking
Tex Development	UK	1	12.0	Expansion of clothing production to be exported to Europe and China / efficiency & exports
Outokumpu	Finland	1	4.5	Auto components plant in Kurgan exporting to Europe / efficiency & exports
Metsä-Botnia	Finland	1	1.4	Paper and pulp production facility
Bank Austria	Austria	1	…	R&D team in Moscow to improve bank-office system / strategic assets
Nuclear Solutions	USA	1	…	R&D centre in Moscow to evaluate viability of various technologies / strategic assets
Rimbubnan Hijau	Malaysia	1	…	1000 job wood processing plant in Irkutsk region

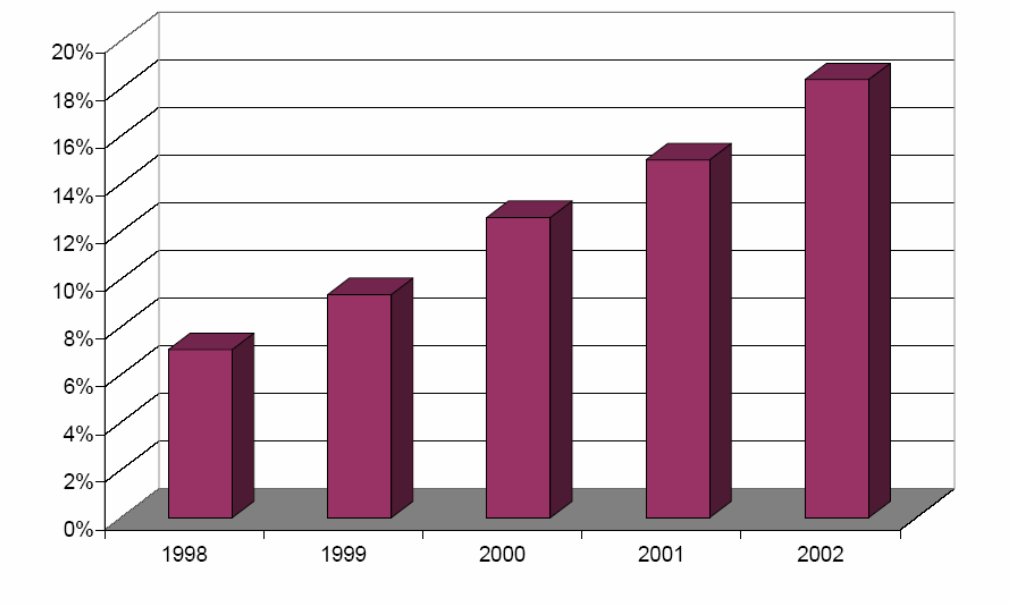
Sources: OCO Consulting LOCOmonitor™ 2003; UNCTAD 2003.

In 2002-2003, the largest investors to Russia were the oil giants Royal Dutch Shell Group and TotalFinaElf with projects connected to oil and gas field development in Sakhalin and gasoline

station chains creation. Multiple investments by both IKEA and Metro in building hypermarket chains in a number of Russia cities made these companies key investors to Russia in 2002-2003. Other major investment include projects in wood processing, metallurgy, automotive, food and electronics industries.

The growing importance of foreign investment in the Russian economy is well illustrated by the dynamics of the share of enterprises with foreign participation in total industrial output. As illustrated in the following figure, the share of companies with foreign participation was only 7% of the total industrial output in 1998, but grew steadily in the following years. In 2002 it reached 18% of the country's total industrial output. (EBC 2003.)

Figure 24. Share of enterprises with foreign participation in total industrial output

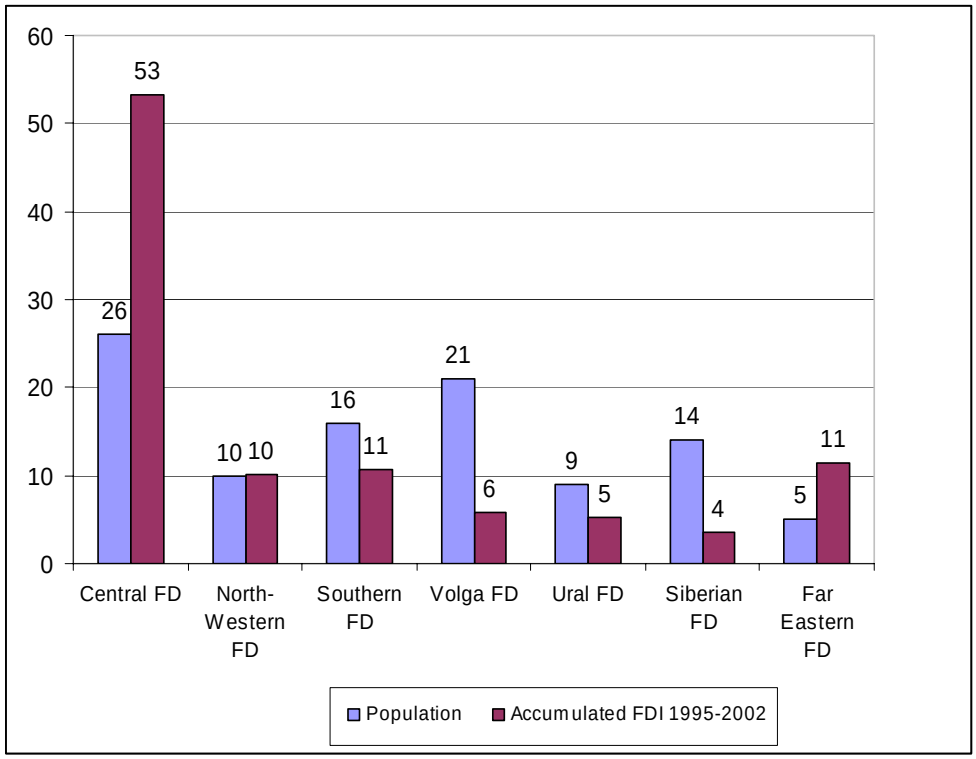


Source: EBC Monitoring Survey 2003.

5.1.4 FDI to Russian Regions

Foreign direct investments are extremely unevenly distributed among the Russian regions. The total accumulated FDI inflow to Russia in 1995-2002 was nearly $ 30 billion. Over half of this went to the Central Federal District, where the capital city of Moscow was by far the most attractive destination. Far Eastern, Southern and North-Western Federal Districts got each approximately 10-11% of total Russian accumulated FDI, and Volga, Ural and Siberian Federal Districts 6, 5 and 4% respectively. The following Figure 25 illustrates the division of FDI inflow among the seven Federal Districts, comparing the shares of FDI inflow to the share of population.

Figure 25. Geographic division of population and accumulated FDI in 1995-2002 over Russian Federal Districts (% of Russian total)



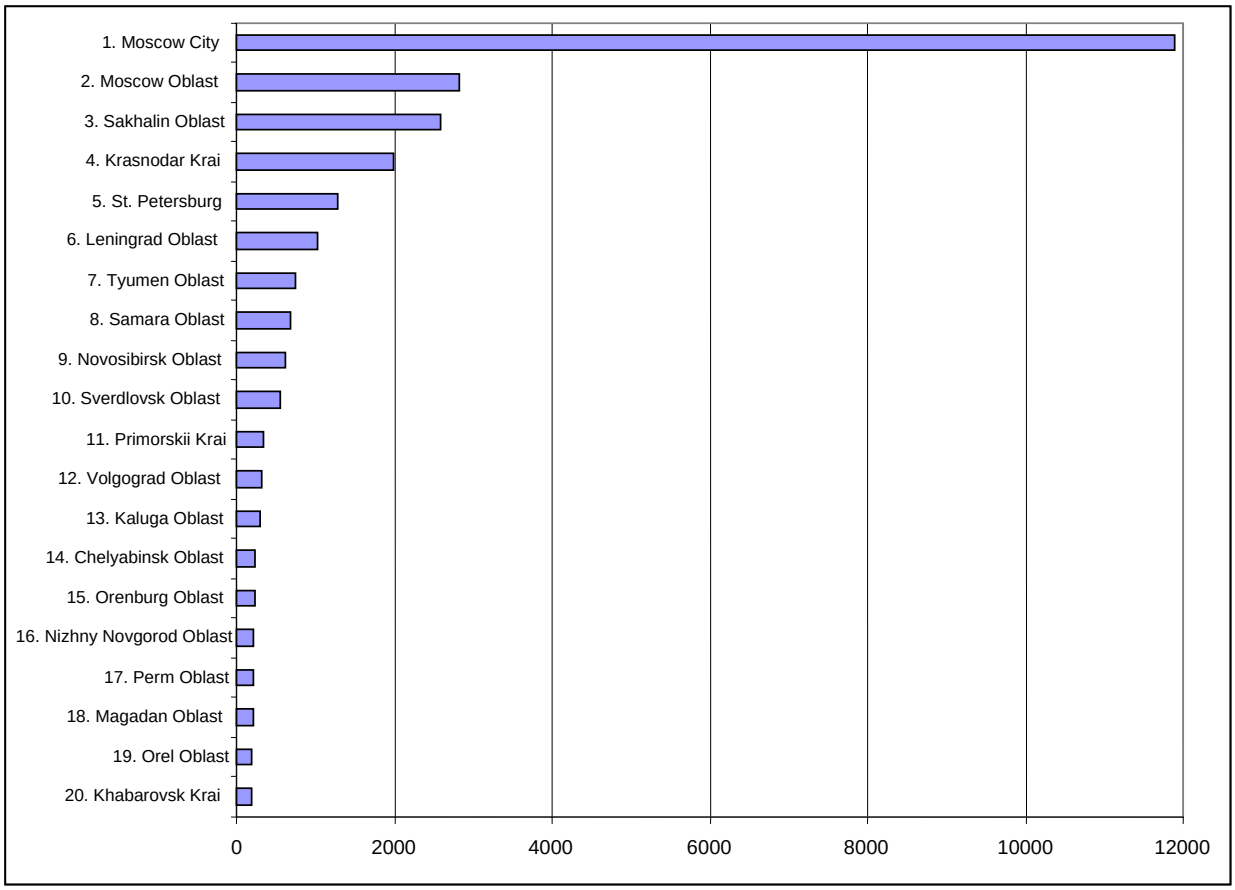
Source: Goskomstat 2003; author's calculations.

As the figure indicates, the share of accumulated FDI of the two most successful districts, Central and Far Eastern FDs is higher than their share of population: the Central Federal District, in which 26% of Russian population lives, has attracted 53% of accumulated FDI to Russia, and the sparsely inhabited Far Eastern Federal District, where only 5% of Russian population lives, has received 11% of total accumulated FDI to Russia.

North-Western Federal District that accommodates roughly 10% of Russian population has also attracted approximately 10% of total Russian FDI. The FDI share of the other four federal districts, namely Southern, Volga, Ural and Siberian FDs, on the contrary, is lower than their share of total population. Especially big difference is in Volga FD that has 21% of Russian population but has received only 6% of accumulated FDI, and in Siberian FD, the share of which is 14% of total population but only 4% of total accumulated FDI inflow.

If the division of FDI by the federal districts is uneven, it is even more so when comparing the individual federal subject (regions). Figure 26 illustrates the amount of accumulated FDI in the 20 regions that have received most of FDI during 1995-2002, Table 33 provides more detailed information on them, and Map 10 shows their location in Russia.

Figure 26. Accumulated FDI in 1995-2002 to Russian regions – top 20 (in $ million)



Source: Goskomstat 2003.

Table 33. Regions with most accumulated FDI in Russia

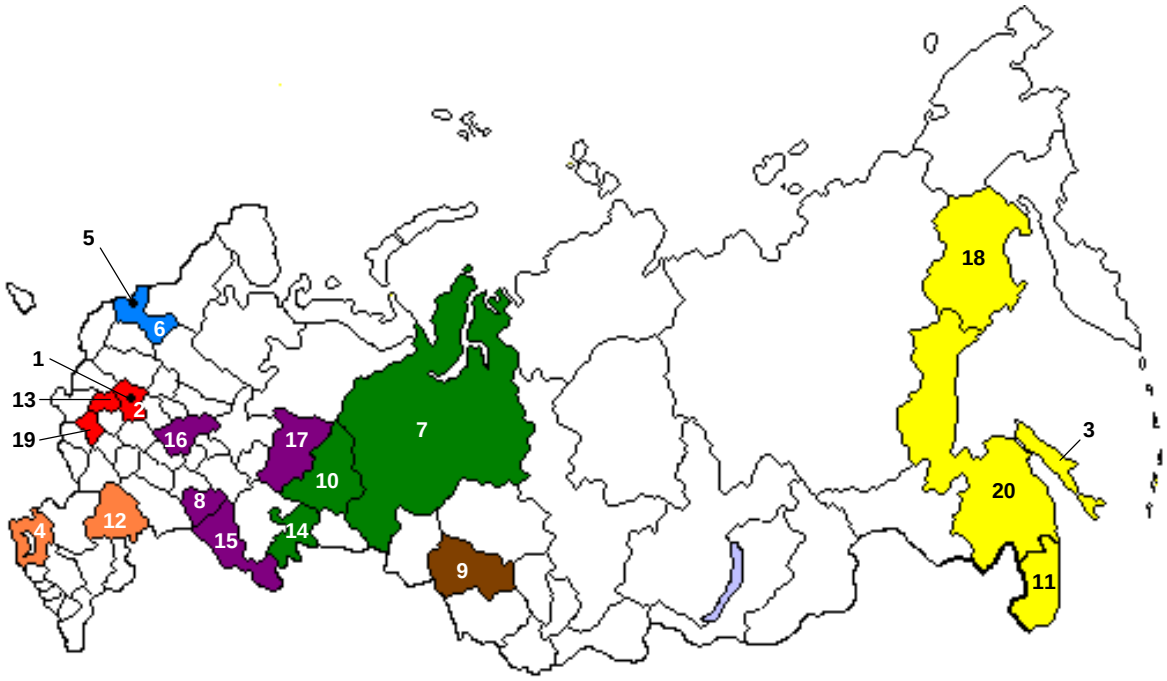
Rank	Region	Federal District	Popula-tion (1000)	Million cities in the region	Accumulated FDI in 1995-2002 ($ 1000)	Accumulated FDI per capita, $	% of total accumulat-ed FDI
	RUSSIA		**145164**		**29825773**	**205**	**100.00**
1	Moscow	Central	10383	Moscow	11900966	1146	39.90
2	Moscow oblast	Central	6619	Moscow	2825082	427	9.47
3	Sakhalin oblast	Far East	547		2596373	4747	8.71
4	Krasnodar krai	South	5125		1993583	389	6.68
5	St. Petersburg	North-West	4661	St. Petersburg	1284763	276	4.31
6	Leningrad oblast	North-West	1669	St. Petersburg	1025519	614	3.44
7	Tyumen oblast	Ural	3265		753402	231	2.53
8	Samara oblast	Volga	3240	Samara	679690	210	2.28
9	Novosibirsk oblast	Siberia	2692	Novosibirsk	613453	228	2.06
10	Sverdlovsk oblast	Ural	4486	Yekaterinburg	561848	125	1.88
11	Primorskii krai	Far East	2071		337641	163	1.13
12	Volgograd oblast	South	2699	Volgograd	311893	116	1.05
13	Kaluga oblast	Central	1042		301034	289	1.01
14	Chelyabinsk oblast	Ural	3604	Chelyabinsk	245623	68	0.82
15	Orenburg oblast	Volga	2179		232430	107	0.78
16	Nizhny Novgorod obl.	Volga	3524	Nizhny Novgorod	223278	63	0.75
17	Perm oblast	Volga	2820	Perm	208448	74	0.70
18	Magadan oblast	Far East	183		205687	1124	0.69
19	Orel oblast	Central	860		195874	228	0.66
20	Khabarovsk krai	Far East	1436		191583	133	0.64

Source: Goskomstat 2003.

As the Table 33 shows, many of the regions with highest accumulated FDI are the regions surrounding million-cities. Of the 13 million-cities in Russia, nine are represented in the table above. Also Tatarstan republic surrounding a million-city Kazan, and Rostov, oblast surrounding Rostov-on-Don, have received relatively much FDI, and are on places 21 and 23 in Russian ranking respectively.

Accumulated FDI per capital figures vary strongly from one region to another. Here it is noticeable, that the Far-Eastern regions of Sakhalin and Magadan with low population have high per capita figures. Also in Moscow city accumulated FDI per capita reaches over $ 1000. The lowest per capita figures of accumulated FDI inflow among the top 20 regions are found in Nizhny Novgorod, Chelyabinsk and Perm oblasts, all in which the accumulated FDI per capita figure is less than $ 100. In general, the FDI per capita figures seem to be lower in those regions of Volga and Ural Federal Districts that have relatively high population.

Map 10. Top 20 FDI recipient regions on a map (by accumulated FDI in 1995-2002)



Central Federal District

As the Figure 26 illustrates, the city of *Moscow* has clearly a dominating role in attracting foreign investment. During 1995-2002 the capital got $ 11.9 billion of accumulated FDI, which is 40% of the total Russian figure. Besides of being the biggest city in Russia, Moscow is also the business centre and the centre of foreign trade in Russian Federation, and as such, a natural destination for most FDI. However, since almost all major companies have their headquarters in Moscow, also investments finally targeted to other Russian regions, may be registered as investments to Moscow. The foreign investment projects of Moscow have often been connected to trade and construction, but also manufacturing projects, as Renault's car manufacturing project, and R&D projects have taken place. However, the relative share of FDI to Moscow has decreased in the past few years, as the competition and costs in Moscow have grown. Thus, other regions have become more and more interesting investment targets to foreign companies, not least because the work force is more easily

available with lower costs in the regions than in Moscow. A shift of FDI from Moscow to the regions is partly explained also by the increasing share of investments to oil and gas sector during the past few years.

The second most successful region in attracting FDI after Moscow city is the surrounding *Moscow oblast* with $ 2.8 billion – or 10% of total Russian – accumulated FDI. The Moscow region ranks among the top Russian regions by its industrial production. The biggest industrial sectors are machine building and metalwork and food industries, where also considerable number of FDI is oriented. Major FDI projects in the Moscow region include Volvo Truck´s assembly project, Michelin's car tyre factory and various multinational corporations' (for example Mars, Pepsi, Coca-Cola) activities in food industry.

Together Moscow and Moscow region account for 93% of FDI flow to the Central Federal District and almost 50% to whole Russia. Other Central FD's regions on the top 20 list are *Kaluga oblast* on 13th and *Orel oblast* on 19th place. Their share of the total Russian FDI inflow is about 1% each. Both Kaluga and Orel regions' main industrial sectors are machine-building and metalwork, as well as food industries.

Far Eastern Federal District

Among the top 20 regions in attracting FDI are four regions from Far Eastern Federal District. *Sakhalin oblast,* with its rich oil and natural gas resources, is number 3 on top 20 list, after Moscow and Moscow oblast. Sakhalin region has received $ 2.6 billion of FDI during 1995-2002. That is 9% of total Russian accumulated FDI. Sakhalin oblast is home to several oil and gas projects, each operated by a unique international consortium. Two of the projects, Sakhalin I and Sakhalin II, both targeted to Asian markets, aim at bringing oil and natural gas production online in the near future. The Sakhalin I is an international project led by Exxon Neftegaz together with consortium members SODECO, ONGC Videsh, Sakhalinmorneftegaz, and RN Astra. The Sakhalin II project is being developed together by Shell, Mitsubishi, and Mitsui. (EIA 2004.)

The three other regions of the Far Eastern FD, Primorskii krai, Magadan oblast and Khabarovski krai, are on places 11, 18 and 20 respectively. *Primorskii krai* has got 1.1% of total Russian FDI inflow during 1995-2002. The most important sectors of economy in Primorskii krai are industrial sector – especially fishing and power industries –, transport and trade. The region has major sea ports in Vladivostok, Nakhodka and Vostochny.

Magadan oblast and Khabarovsk krai have both received less than 1% of total FDI inflow to Russia. *Magadan oblast* is rich with non-ferrous metals, such as gold, tin, uranium and silver. The natural resources of *Khabarovsk krai* include timber, coal, gold and ore. The economy of the region is dominated by machine-building industry but it is also the major logging and lumber production site in Far Eastern FD. There are also major river and sea ports in Khabarovsk krai.

Southern Federal District

Number four on the list of most attractive FDI destination among Russian regions is *Krasnodar Krai* in the Southern Federal District. It has attracted FDI raughly $ 2 billion during 1995-2002. This makes almost 7% of total Russian accumulated FDI inflow. Krasnodar region is the prime sea gateway to the Russian Federation. The port infrastructure by the Black Sea is focused on exporting oil and gas products, as the two oil terminal ports of Novorossiysk and Toapse are connected to the Russian pipeline systems. The major infrastructure projects on the oil and gas sector have offered investment opportunities also for foreign companies. In addition to the infrastructure investment,

the region has also attracted investment to trade, and agriculture, as well as to its biggest industrial sector – food processing. Foreign investors include for instance cargo management and logistics companies LaRoute and Petrak Limited, and food processing companies Tetra-Pak and Nestle, the latter of which has recently announced its investment plan to build a coffee plant in Krasnodar Region.

Another region of Southern Federal District on the list of most attractive destination for FDI is *Volgograd oblast* on 12th place, with barely over 1 % of Russian accumulated FDI. Volgograd region is an industrially developed region, and has attracted investments mainly to energy, chemical and petrochemical, as well as to food and food processing industries.

North-Western Federal District

The second biggest city of the Russian Federation, *St. Petersburg* is fifth on the top 20 list. It has attracted approximately $ 1.3 billion of foreign direct investment during 1995-2002, which is 4.3% of Russian accumulated FDI inflow. Most of the FDI has gone to industrial sector, where food and machine-building industries has been the biggest recipient, but also telecommunications, wholesale trade, transportation and public catering have attracted substantial FDI inflows. Foreign companies invested to St. Petersburg include for example, Coca-Cola, Gillette, Japan Tobacco, Wrigley, Scania (bus assembly factory), Telia-Sonera, Carlsberg (Baltika Brewery), Heineken, JTI, Metro Cash&Carry, Siemens, LG, Alcatel and Motorola (four last mentioned with R&D centres). Moreover, many large investment projects taking place in the surrounding Leningrad oblast but in close proximity to St. Petersburg and also economically tied to the city, can been considered, to all intents and purposes, as St. Petersburg projects (e.g. Phillip Morris, Ford, IKEA).

The surrounding *Leningrad oblast* has been the sixth most attractive destination for FDI right after St. Petersburg. Most FDI has gone to industrial sector, and above all, to food, machine-building, and forest and wood-processing industries. Major foreign investors having production in the region are Ford, Phillip Morris, Caterpillar, Stora-Enso, International Paper, Kraft Jacobs, and IKEA. Accumulated FDI inflow to Leningrad region in 1995-2002 totals $ 1.03 billion which is 3.4% of the whole inflow to Russia. Thus, together St. Petersburg and Leningrad oblast have received FDI worth $ 2.3 billion. That is 77% of total FDI inflow to North-Western Federal District and 7.7% of total Russian figure. St. Petersburg and Leningrad oblast are the only regions in North-Western FD that are among the top 20 list of FDI recipient regions in Russia.

Volga Federal District

The most successful region of the Volga FD in attracting FDI has been *Samara oblast*. It has attracted roughly $ 680 million of FDI, which is about 2.3% of total FDI inflow to Russia, and is on 8th place among the Russian regions. The far most important sector of economy in the Samara region is the machine-building and metal-work industry, followed by trade. Among the largest investment projects in the region are General Motors' $ 332 million joint venture with AvtoVAZ and the EBRD producing sport-utility vehicles in Togliatti, Corning Inc.'s joint venture "Samara Optical Cable Company" manufacturing telecommunication cables, Henkel's joint venture with Plastic processing PVC for the automotive industry in Syzran, Coca-Cola and Pepsi-Cola bottling plants in Samara, Nestle Food's joint venture with Rossiya Chocolate Company, and Danone's production plant in Togliatti.

There are three other regions from Volga FD that make to the list of 20 most successful regions in attracting FDI. These are Orenburg, Nizhny Novgorod, and Perm oblasts on places 15, 16 and 17 respectively. Each of their share of total accumulated FDI inflow to Russia is only about 0.7%.

Orenburg oblast has vast natural resources including over 75 kinds of economic minerals, for example gas, oil, brown coal, cooper, pyrite and iron-ores, rock salt, crystallite-asbestos and jasper. Thus, the most important industrial sectors are fuel industry, metallurgy, power industry and machine-building and metal-work.

Also *Nizhny Novgorod* oblast is a highly industrialised region. The most important industry is machine-building. The most attractive investment targets for foreign companies have been the automotive, wood-processing and glass industries. Examples of foreign companies having production in the region include Stora-Enso and IKEA in wood processing, and Coca-Cola, and Spanish company PASA in food industry.

Perm oblast is an important natural resource base with deposits of oil, gas, magnesium, potassium, and titanium ore. The region has highly diversified industrial complex, the biggest industries including fuel, chemical and machine-building and metal-work industries. After the industrial sector, trade is the second most important sector of economy in the Perm region. Priority areas for attracting foreign investment are oil-processing, power engineering, wood processing, food production, telecommunications, and construction materials. Examples of successful joint ventures in Perm region include those between Sun Group Plc and a local brewery, Nestle and a local confectionary, and Pratt & Whitney and Perm Motor Plant in manufacturing aircraft engines.

Ural Federal District

Of the four oblasts of the Ural FD, three reached the top 20 list of most prominent FDI recipient regions in Russia. The most successful of them in attracting foreign direct investment is *Tyumen oblast,* number seven on the list. The oblast has received $ 753 million accumulated FDI, which accounts for a little over 2.5% of total Russian accumulated FDI inflow. Tyumen oblast possesses about 90% of the gas and over 60% the oil resources of Russian Federation. Thus, the fuel industry dominates the region's industrial structure with almost 90% share of total regional industrial production. Also the majority of foreign investment has gone to the oil and gas sector. Other rapidly developing industries in the region are petrochemicals, wood processing, and oil and gas machinery manufacturing.

Another region of the Ural FD on the top 20 list is *Sverdlovsk oblast* on tenth place. Its share of total accumulated FDI to Russia is less than 2%. The Sverdlovsk region has substantial mineral resources such as bauxite, asbestos, iron-ores, vanadium, copper, and nickel. The region has also vast timber resources. However, it is missing its own energy production as the development of existing oil and gas deposits is only beginning. The dominating industrial sector is metallurgy followed by machine-building and metal work, to which also foreign direct investments have mainly gone. However, also other industrial sectors have attracted foreign investments. The most recent example is perhaps Heineken's announcement to invest $ 40 billion in building a brewery in Sverdlovsk oblast, serving the growing markets of Ural and Siberian regions.

The third region of Ural Federal District on the top 20 list is *Chelyabinsk oblast* on 14th place with less than 1% share of total Russian accumulated FDI inflow. Chelyabinsk region has great natural riches containing iron-, copper-, zinc-, and titanium-ores, nickel and bauxite, as well as timber and water resources. The biggest industrial sector is black metallurgy, and the region is the most important steel producer in Russia. The second most significant industrial branch is machine-building and metal-work, including military industry. An overwhelming majority of FDI to Chelyabinsk region has gone to metallurgy, although there are joint ventures on many other industrial branches, for instance on textile, telecommunication, food, and pharmaceutical industries.

Siberian Federal District

The only region of the Siberian Federal District on the list top 20 FDI recipient regions is *Novosibirsk oblast* on ninth place. Its share of total Russian accumulated FDI flow was slightly over 2%, and of total FDI to the Siberian FD over 58%. The structure of Novosibirsk economy is diversified: the important branches of Novosibirsk's economy include industry, where machine-building, food industry and power industry are the biggest ones, agriculture, trade and transport. The region is also known for its research and development capabilities. While Novosibirsk does not contain the vast natural resources of its neighbouring regions, it serves as a processing and distribution centre for those goods. Foreign investors to the region include for example Mars, with its pet-food factory, and Coca-Cola, with its soft drinks plant.

Investment potential and investment risk rating of the Russian regions

According to rating agency Expert RA and Expert magazine, the investment climate of the Russian regions has stabilized. The number of marginal regions with high investment risks and low potential has diminished and the number of regions in the middle-class by potential and risks has increased. The following table lists the most prominent regions by their investment potential in 2002-2003, and shows their position in investment risk rating. The most prominent regions are almost the same as a year before with only some minor changes in their mutual order.

Table 34. Investment potential and investment risk ranking of Russian regions

Investment potential ranking (1= highest potential)		*Region*	*Investment risk ranking (1= the lowest risk)*
2002/3	*2001/2*		*2002/3*
1	1	Moscow city	6
2	2	St. Petersburg	2
3	3	Moscow oblast	8
4	4	Khanty-Mansiisky AO (in Tyumen oblast)	65
5	5	Sverdlovsk oblast	47
6	6	Samara oblast	16
7	8	Nizhny Novgorod oblast	7
8	7	Krasnoyarsk krai	67
9	10	Krasnodar krai	10
10	9	Tatarstan republic	5
11	12	Perm oblast	32
12	13	Rostov oblast	14
13	14	Kemerovo oblast	62
14	11	Chelyabinsk oblast	75
15	15	Bashkortostan republic	11
16	16	Irkutsk oblast	61
17	17	Yamalo-Nenetsky AO (in Tyumen oblast)	83
18	18	Sakha republic	69
19	19	Novosibirsk oblast	38
20	21	Saratov oblast	28

Source: Expert 2004.

The highest investment potential in 2002-2003 was in Moscow city, St. Petersburg and in Moscow oblast. Many of the regions ranked among the 20 best by their investment potential are also the ones that have gained the most accumulated FDI (see Table 33).

Expert RA's investment risk rating is done by assessing legislative and political, economical and financial, as well as social, ecological and crime-related risks. The lowest investment risks in 2003

were in Yaroslav oblast, (on place 33 by investment potential), in St. Petersburg, in Belgorad oblast (25th by investment potential) and in Novgorod oblast (64th by investment potential). The city of Moscow had dropped from 2nd place in 2002 to 6th place in 2003 in investment risk rating mainly because the city is still missing an investment law (see also Appendix 5).

5.1.5 Finnish FDI to Russia –Mostly Directed to North-Western Federal District

According to the Bank of Finland, the Finnish FDI stock in Russia in the end of 2002 was € 342 million. The figure was € 116 million less than the year before, which was partly due to net capital flow (€ -50 million) but to greater extent to exchange rate and other valuation changes (€ -66 million). However, the sum reaches approximately € 1.5 billion if to add there investment to target companies done by Finnish companies' foreign subsidiaries. (Finpro 2004.) All in all, the Finnish direct investments to Russia are very modest, as FDI to Russia in general. For the comparison, the total Finnish outward FDI stock in the end of 2002 was € 60 955 million, of which the share of EU countries[13] was 68%. Of the emerging markets, the Finnish outward FDI stocks both in China (€ 581 million) and in Estonia (€ 608 €) were bigger than in Russia. (Bank of Finland 2003.)

Table 35. Finnish OFDI to Russia

	2001	*2002*
Finnish OFDI stock in Russia (€ million)	458	342
Number of employees in Finnish companies' subsidiaries in Russia	6 300	9 512
Turnover of Finnish companies' subsidiaries in Russia (€ million)	923	1 003

Source: Bank of Finland 2003.

Table 36. FDI inflow to Russia by investor countries in 2000 and 2002 (in $ million)

	2000	*Share of total (%)*	*2002*	*Share of total (%)*
Germany	1241	28.0	410	10.2
UK	678	15.3	327	8.2
France	610	13.8	49	1.2
USA	341	7.7	603	15.1
Switzerland	262	5.9	67	1.7
Luxembourg	257	5.8	107	2.7
Cyprus	115	2.6	571	14.3
Finland	***107***	***2.4***	***151***	***3.8***
The Netherlands	97	2.2	504	12.6
Sweden	22	0.5	…	…
Virgin Islands (UK)	…	…	137	3.4
Japan	…	…	260	6.5
Other	699	15.8	816	20.4
Total	**4429**	**100.0**	**4002**	**100.0**

Source: Goskomstat 2003.

As Table 35 indicates, the business of Finnish companies' subsidiaries or branches in Russia increased from 2001 to 2002, measured both by the number of employees and by turnover although the FDI stock decreased. (Bank of Finland 2003.) According to Goskomstat statistics, Finland has been among the ten biggest investor countries to Russian economy latest in 2000 and 2002. In 2000

[13] Here EU countries refer to EU15, thus to the countries that were EU members in the end of 2002.

the FDI inflow from Finland to Russia was $ 107 million, which was 2.4% of total FDI inflow to Russia. In 2002, Finnish direct investment was $ 151 million, making the share of Finnish FDI almost 4% of total FDI inflow to Russia, as shown in Table 36.

Woodworking and paper and pulp industry is the only industrial sector in Russia where Finland is among the most significant foreign direct investors. In 2003 Finnish FDI to Russian timber, paper and pulp industry was $ 79 million, which accounted for 25% of total foreign direct investment to the sector of industry. Only Cyprus with its share of 39% of total FDI to timber, paper and pulp industry was before Finland. (Goskomstat 2003.) However, Cypriot FDI is quite likely of Russian origin, thus making Finland the most important foreign investor country to Russian woodworking industry. Finnish forest companies have invested for example to mechanical forest industry (e.g. UPM-Kymmene) and in cardboard production (e.g. Stora-Enso with its factory in Balanovo and another one being build in Arzamas).

Geographically Finnish direct investments to Russia are predominantly directed to the North-Western Federal District, especially to St. Petersburg and Leningrad oblast. The following table represents the number of companies with foreign capital in Russian Federal Districts and in North-Western FD's regions, as well as the share of companies with Finnish capital of all joint-ventures.

Table 37. Number of companies with foreign capital 1999-2002

	1999			*2000*			*2001*			*2002*		
	Total	Finnish	Finnish of total (%)	Total	Finnish	Finnish of total (%)	Total	Finnish	Finnish of total (%)	Total	Finnish	Finnish of total (%)
Central FD	**6388**	**142**	**2.2**	**6585**	**122**	**1.9**	**7050**	**114**	**1.6**	**7279**	**95**	**1.3**
Moscow & Moscow oblast	*5739*	*133*	*2.3*	*5849*	*112*	*2.1*	*6318*	*103*	*1.6*	*6438*	*86*	*1.3*
North-West FD	**2366**	**410**	**17.3**	**2789**	**448**	**16.1**	**2911**	**453**	**15.6**	**3177**	**429**	**13.5**
Karelian Republic	*82*	*39*	*47.6*	*79*	*39*	*49.4*	*86*	*45*	*52.3*	*87*	*43*	*49.4*
Komi Republic	*81*	*3*	*3.7*	*82*	*3*	*3.7*	*70*	*2*	*1.4*	*50*	*1*	*2.0*
Arkhangel oblast	*54*	*4*	*7.4*	*60*	*3*	*5.0*	*56*	*3*	*5.4*	*72*	*4*	*5.6*
Vologda oblast	*55*	*2*	*3.6*	*45*	*4*	*8.9*	*42*	*2*	*4.8*	*50*	*2*	*4.0*
Kaliningrad oblast	*325*	*2*	*0.6*	*336*	*2*	*0.6*	*333*	*2*	*0.6*	*374*	*2*	*0.5*
Leningrad oblast & St. Petersburg	*1535*	*342*	*22.3*	*1943*	*378*	*19.5*	*2066*	*377*	*18.2*	*2251*	*353*	*15.7*
Murmansk oblast	*85*	*13*	*15.3*	*85*	*14*	*16.5*	*92*	*17*	*18.5*	*97*	*19*	*19.6*
Novgorod oblast	*69*	*5*	*7.2*	*82*	*5*	*6.1*	*87*	*5*	*5.7*	*91*	*5*	*5.4*
Pskov oblast	*80*	-	-	*77*	-	-	*79*	-	-	*105*	-	-
South FD	**758**	**10**	**1.3**	**783**	**9**	**1.1**	**787**	**8**	**1.0**	**855**	**9**	**1.1**
Volga FD	**719**	**14**	**1.9**	**737**	**14**	**1.9**	**693**	**12**	**1.7**	**717**	**15**	**2.1**
Ural FD	**452**	**10**	**2.2**	**434**	**9**	**2.1**	**404**	**9**	**2.2**	**463**	**9**	**1.9**
Siberian FD	**509**	**4**	**0.8**	**554**	**6**	**1.1**	**566**	**7**	**1.2**	**589**	**7**	**1.2**
Far Eastern FD	**595**	**4**	**0.7**	**681**	**4**	**0.6**	**693**	**5**	**0.7**	**749**	**5**	**0.7**
Total in Russia	**11787**	**594**	**5.0**	**12563**	**612**	**4.9**	**13104**	**608**	**4.6**	**13829**	**569**	**4.1**

Source: Goskomstat 2003.

As the table indicates, most joint ventures in Russia are located in Central or in North-Western Federal Districts, and here too, the role of Moscow is dominant. However, the amount of Finnish joint ventures in Moscow and in Moscow oblast has steadily diminished during the past few years (from 133 in 1999 to 86 in 2002). Nevertheless, Moscow area is still the second most popular location for Finnish joint ventures after St. Petersburg and its surroundings. In Moscow region the biggest investor country measured by the number of joint ventures is quite surprisingly China with over 1000 joint ventures in 2002. Also Cyprus, USA, Germany and UK have numerous joint ventures in Moscow and the surrounding oblast.

Finnish companies have joint ventures mostly with companies located in North-Western Federal District, especially in St. Petersburg and Leningrad oblast. Measured by the number of joint ventures, Finland is the most significant investor country there, although, the share of companies with Finnish capital of all joint ventures has slightly decreased, from 22.3% in 1999 to 15.7% in 2002. The amount of Finnish joint ventures in St. Petersburg and in Leningrad oblast has, however, been rather stable, whereas the total amount of joint ventures in the area has increased, making the share of companies with Finnish capital relatively smaller. In Leningrad oblast, the share of Finland of the region's total foreign investment flow in 2003 was 4% making Finland the fifth biggest investor to the region. In St. Petersburg the share of Finnish investment of total foreign investment inflow during January-September 2003 was 7%, and there Finland was the sixth biggest investor country at the time.

Measured by both the amount of joint ventures and investment flow in 2003, Finland was the most important investor also in Karelia republic, where approximately half of all joint ventures are companies with Finnish capital, and roughly one fourth of foreign investment in 2003 came from Finland. The share of Finland in Karelian accumulated foreign investment stock in the beginning of 2004 was 13%, making Finland the third biggest investor after Cyprus and Germany in this respect. In Murmansk oblast, the share of Finnish joint ventures has increased to almost 20% in 2002 making Finland the second most important investor country after Norway. Finland's share of total foreign investment to Murmansk region in 2003 accounted for about 9%, whereas the share of Norway was 35%. (Goskomstat 2003; Economic Monitoring… 2004.)

In Southern Federal District most of the few Finnish joint ventures are located in Stavropol krai and in Volga Federal District in Samara and Nizhny Novgorod oblasts. From Ural Federal District the most popular region for Finnish joint ventures is Tyumen oblast, followed by Sverdlovsk region. In Siberian Federal District the Finnish joint ventures are quite evenly scattered between the regions, whereas in Far Eastern Federal District most joint ventures with Finnish capital are in Primorsk krai. (Goskomstat 2003.) However, Finnish joint ventures outside the North-Western Federal District are few, as over 75% of Finnish joint ventures are located in the geographically closest North-Western Federal District. The investment potential and investment risk rating of the regions of the North-Western Federal District are represented in the following Table 38, as well as the accumulated FDI figures of the regions.

Table 38. Investment potential, investment risk and accumulated FDI rankings of regions in North-Western Federal District

Region	*Investment potential ranking 2002-2003*	*Investment risk ranking 2002-2003 (1= lowest risk)*	*Ranking by accumulated FDI in 1995-2002*	*Accumulated FDI in 1995-2002 ($ 1000)*	*Accumulated FDI per capita ($)*
St. Petersburg	2	2	5	1284763	276
Leningrad oblast	21	26	6	1025519	614
Murmansk oblast	32	37	38	51851	58
Kaliningrad oblast	35	13	32	73930	77
Vologda oblast	42	9	40	45494	36
Komi republic	43	72	24	156944	154
Arkhangelsk oblast	46	46	29	132165	99
Karelia republic	62	35	31	79366	111
Pskov oblast	63	18	54	20953	28
Novgorod oblast	64	4	28	132369	191

Sources: Expert 2004; Goskomstat 2003.

The only region of the North-Western Federal District that was among the top 20 in the investment potential ranking in 2002-2003 is St. Petersburg, that was rated the second best of all Russian regions, both according to investment potential and investment risk. Next best region of North-Western FD by the investment potential after St. Petersburg is the surrounding Leningrad oblast on the place 21. Among top 40 in investment potential ranking are also Murmansk and Kaliningrad oblasts on places 32 and 35. Of them, the investment risk rating is relatively low in Kaliningrad (number 13 in the investment risk ranking). Also the Vologda oblast has relatively low investment risk (9th place on Expert RA's ranking) but by its investment potential, the region belongs to the "middle class" among all the Russian regions. In the middle class by the investment potential is also Komi Republic, but the investment risk in the region is among the twenty highest in Russia. The lowest investment potential ranking of all North-Western FD's regions is that of Novgorod oblast, which is on 64th place right after Karelia republic and Pskov region. However, the investment risk rating of Novgorod region is one of the best in Russia: in 2002-2003 the region was ranked as having the fourth lowest investment risk among all Russian regions.

When looking at the ranking of the actual accumulated FDI received by the regions, the order is more or less the same as in the investment potential ranking. Thus, the regions that are ranked highest by their investment potential are usually those that have also received most FDI. However, there are some rather significant differences in these two rankings, especially regarding to Novgorod region. It is ranked lowest of the North-Western FD's regions by the investment potential, but it has received the four most accumulated FDI of them, after St. Petersburg, Leningrad oblast and Komi republic. And measured by the accumulated FDI per capita, Novgorod is on third place among the regions of North-Western FD. Here Novgorod's excellent ranking by investment risk can be one explanatory factor. The least successful region in the Federal District in attracting FDI is Pskov oblast, measured by both absolute and per capita figures.

Recent examples of Finnish paper industry enterprises' investment projects to North-Western Federal District include Metso Paper's investment to modernisation of production line in paper and pulp factory in Segezhan, Karelia republic, the start-up (in August 2003) of Stora Enso's first timber mill in Russia in Impilahti, Karelia republic, and Metsäliitto's project of building a timber mill in Leningrad oblast that will start its operation in 2005. (Finpro 2004.)

Finnish forest companies have also invested in Novgorod oblast, where Finland's share of total accumulated foreign investments by the end of 2003 was 28%. Only UK with the share of 29% is a more important investor in Novgorod region. In 2003, the wood and wood-processing industry was the recipient of most foreign investments to Novgorod region, with the share of 45% of total foreign investment inflow. Finnish forest industry company UPM-Kymmene was the biggest investor to the region accounting for over 41% of total foreign investment. UPM-Kymmene has a large sawmill in Pestevo, the annual capacity of which is 200.000 cubic metres of sawn wood. At the moment, Finnish forest industry companies are implementing three large investment projects in Novgorod region's wood-processing industry. (Economic Monitoring… 2004.)

Major Finnish manufacturing FDI projects to St. Petersburg and Leningrad oblast include Rautaruukki's metal works in St. Petersburg, Kuusakoski's aluminium refinery in Vyborg, Elcoteq's electronics assembly plant in St. Petersburg, Helkama Forste's cold storage equipment factory in St. Petersburg, and Nokian Tyres' new project of building a tyre production facility in Leningrad oblast that will start its operation in 2005. Finnish companies have actively invested also in food industry, e.g. Hartwall in Baltika-brewery, Sinebrychoff in Vena-brewery, Fazer Bakery, that has a joint-venture with Hlebnyi Dom in St. Petersburg, and Raisio Group which stared

margarine production in the beginning of 2004 in Istra near Moscow. In energy sector, the biggest Finnish investor is Fortum that has a joint venture company SeverTEK with KomiTEK/Lukoil. SeverTEK's core business is development and production of the Shapkino area oil and gas fields in Nenets automonous okrug in North-Western Federal District. In addition, Fortum's subsidiary Neste has a service station chain operating in St. Petersburg and in Vyborg. In the field of telecommunication, major Finnish FDI includes the investment done by TeliaSonera. Finnish companies have invested also in retail trade: for example Stockmann, that has stores both in St. Petersburg and in Moscow, where another Stockmann department store was recently opened, and Tradeka that is also building a new store to its Siwa-chain in St. Petersburg.

According to a recently published barometer by Finnish-Russian Chamber of Commerce, Finnish companies' faith in the economic growth of Russia is higher than never before. The barometer indicates that Finnish companies' willingness to invest in Russia has increased, and of the 300 companies answered to the survey as many as one third is planning to invest to Russia. Most investment plans are connected to investment to sales and marketing but also the number of companies intending to invest in manufacturing has grown from the previous barometer. (Rantanen, 2004.)

However, the fact that the investment protection agreement between Finland and Russia is still missing may diminish Finnish companies' willingness to invest to Russia. The latest attempt to get the agreement into force failed as Russia wanted to exclude forest industry from the agreement. Investment protection agreement would have a great significance to Finnish investment, as it would stop the double tariffs, in other words, the higher prices of electricity, water and transport for Finnish companies than those for Russian companies. Also the repatriation of profits would become easier by the new agreement. (Finpro 2004.)

5.2 Russian Direct Investment and Corporations Abroad

Russia's outward foreign direct investment (OFDI) stock amounted to $ 18 billion by the beginning of 2003. Russia covers just 0.3% of the whole world's OFDI stock. Though Russia is a minor player in the international investment arena, four things must be remembered (UNCTAD 2003).

First, the OFDI from Russia will inevitably grow in the future, when the Russian firms' financial situation improves and they gain more experience in international business. Second, the OFDI figure does not cover all the Russian capital abroad, since it does not include gargantuan capital flight. According to the European Commission (2004), $ 245 billion is estimated to have flown from Russia during 1992-2002 i.e. Russia's OFDI stock is less than 10% of capital flight. Third, even if Russia is a dwarf in international OFDI comparison, she makes up almost 60% of the transition economies' total OFDI stock. Fourth, the FDI outburst has taken place during the past few years i.e. nearly 90% of Russia's OFDI stock has accumulated during 1997-2002 (see Table 39).

Table 39. Recorded FDI outflow, capital flight and Russia's exports ($ billion)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Recorded FDI outflow	0.1*	0.1	0.4	0.9	3.2	1.3	2.2	3.2	2.6	3.3
Capital flight	n.d.	15.0	7.5	26.0	11.0	21.0	21.0	23.6	21.6	n.d.
Exports	59.7	68.1	81.3	88.4	86.7	73.9	74.3	105.2	105.1	107.2
FDI outflow/capital flight	…	0.7%	5.3%	3.5%	29.1%	6.2%	10.5%	13.6%	12.0%	...
FDI outflow/exports	0.2%	0.1%	0.5%	1.0%	3.7%	1.8%	3.0%	3.0%	2.5%	3.1%

	1988-93	1994	1995	1996	1997	1998	1999	2000	2001	2002
FDI outflow/gross fixed capital formation	0.4%	0.2%	0.5%	1.0%	3.9%	2.6%	8.0%	7.8%	4.4%	5.3%
FDI outflow/gross domestic product	...	...	0.9%	...	...	...	...	4.8%	4.8%	5.2%

* 1988-1993 annual average.

Sources: Bank of Finland 2001; 2002; 2003; EIU 2001; 2002; IMF 2001; UNCTAD 2000; 2001; 2002; 2003; author's calculations.

Kalotay (2003) suggests that the EU25 is the main destination for the Russian firms. 25 member states of the EU has attracted a half of all the Russian OFDI. Besides Germany, the eastern part of the EU is a particularly attractive investment target for the Russian firms. In absolute terms, Poland is the leading country in Central Eastern Europe (CEE) with nearly $ 1.3-billion investment from Russia. Correspondingly, Latvia and Lithuania are the leading countries measured in relative terms. In both the aforementioned countries, Russia accounts for 5% of the total inward FDI stock (Table 40).

Table 40. The Russian FDI in the new European Union

Country	FDI stock ($ mn)	Share of country's total FDI stock (%)	Ranking among investor countries	Russian FDI per host country's citizen ($)
Cyprus (1.1. 97-31.12.2002)	284.69	…	…	…
Czech Republic (31.6.2003)	28.50	0.07	…	3
Estonia (31.3.2003)	69.73	1.40	10	50
Hungary (1.1.2003)	71.00	0.23	…	8
Latvia (1.1.2003)	157.31	5.28	…	68
Lithuania (1.1.2003)	235.56	5.21	8	65
Malta (1.1.2003)	0.00	0.00	…	0
Poland (1.1.2003)	1291.90	1.89	12	33
Slovakia (30.6.2003)	less than 10.00	less than 0.10	…	…
Slovenia (1.1.2003)	2.10	0.00	…	0

Source: Liuhto – Vahtra 2004.

Russia is the 12th largest investor in Poland with a 2%-stake. The biggest Russian investment in Poland has been conducted by Gazprom ($ 1.28 bn). Gazprom has equity investments at least in two Polish companies: Europol Gaz and Gas Trading. Practically all Gazprom's investments in Poland have been placed in Europol Gaz, which controls the gas pipeline, Yamal-Europe, inside the Polish territory. Gazprom owns a 48%-stake of Europol Gaz. Gas Trading possesses four per cent in Europol Gaz. Correspondingly, Gazprom owns 35% of Gas Trading. In addition to Gazprom's two aforementioned holdings, there is only one other Russian unit in Poland, where the investment exceeds $ 1 million - a company producing chocolate and candy, Sniezka. Other direct investments from Russia to Poland are small, though the number of Russian-owned firms is relatively high (Liuhto 2002).

Registered outward FDI from Russia to Cyprus was $ 285 million during 1997-2002. This amount does not represent the total Russian capital in Cyprus, as the overwhelming majority of Russian capital in Cyprus undoubtedly derives from Russian capital flight. The researchers believe that the true proportion of the Russian capital in the inward foreign investment stock of Cyprus is much larger than the above figure indicates.

Lithuania holds the third place among the 10 new EU countries in terms of attracting Russian investments. Russian energy companies have been active in Lithuania. For instance, Yukos has arrived in Lithuania with significant investments. It acquired a 27%-stake in Mazeikiu Nafta, including a refinery and oil terminal in Butinge, in June 2002. Two months later, Yukos acquired another 27%-stake in Mazeikiu Nafta, thereby increasing its ownership to 54%. The price paid for the first stake was around $ 75 million and for the second, some $ 85 million. Correspondingly, a Gazprom-led consortium won a privatisation deal over the Kaunas Hydroelectric Power Station. The consortium has paid around $ 30 million for the plant and pledged to invest further $ 30 million by 2005 to improve the unit. Besides this, Gazprom has done another major investment in Lithuania. It acquired a 34%-stake in the gas utility Lietuvos Dujos with almost $ 37 million.

Russian corporations have invested over $ 150 million in Latvia. The three biggest Russian investments in Latvia are: (1) Latrostrans (investor: Transneftprodukt; investment: $ 62 mn; field of operation: transit of oil products), (2) Latvijas Gaze (Gazprom; $ 19 mn; gas supply), and (3) Lukoil Baltija (Lukoil; $ 15 mn; the transit of oil products and their trade). These three investments cover over 60% of the Russian FDI in Latvia. The Latvian port of Ventspils is considered to be a target for Russian investors.

The Russian firms have invested directly some $ 70 million in Estonia, representing 1% of the country's inward FDI stock. Energy companies are also behind the majority of the Russian FDI in Estonia. The main Russian investor is Gazprom, which holds almost a third of an Estonian gas company, Eesti Gaas. Also Itera, another gas firm managed by Russians, holds a significant stake (10%) in Eesti Gaas. Nitrofert, Estonia's largest fertiliser producer is another significant Russian-owned company in Estonia.

According to the Hungarian statistics, Russian companies have directly invested in Hungary nearly the same amount as in Estonia. This $ 70-million amount is questionably small when one takes into account that Gazprom alone has significant stakes at least in five Hungarian companies: (1) a gas trading and transport company Panrusgas - 40%, (2) an oil and gas equipment manufacturing firm DKG-East Co. Inc - 38%, (3) a bank, General Banking and Trust Co. Ltd, (4) a petrochemical company BorsodChem - 25%, and (5) a petrochemical company TVK - 14%. Besides Gazprom, Russian oil companies have entered Hungary, such as Lukoil.

Russian corporations have invested in the Czech Republic less than $ 30 million. In the Czech Republic, Gazprom owns a controlling stake in a gas supplying company, GasInvest, which operates in close co-operation with a Czech gas distributor, Transgas. Also Transgas is mentioned to be an interesting acquisition target for Gazprom.

Thought statistics indicate that Russian direct investment in the Slovak Republic is less than $ 10 million, one should not forget the major investments by Russian energy companies, including the $ 74 million investment by Yukos in Transpetrol and pre-emption right of Gazprom to acquire a stake in SPP, a Slovakian gas pipeline operator, with some $ 1 billion. In other words, Russian firms have indirectly invested a considerable sum in Slovakia.

Slovenia has attracted only $ 2 million as foreign direct investment from Russia. Russian business presence in Slovenia is likely to remain modest due to three reasons; (1) the Russian oil companies favour other parts of former Yugoslavia and Greece in South Eastern Europe, (2) Slovenia is a tiny market with a relatively fierce competition already in existence, and (3) Russia's natural gas and oil exports to Slovenia are modest.

According to the statistics, Malta has not received directly any investment from Russia.

Though Kalotay indicates modest FDI flows from Russia to Finland, the Bank of Finland (2003) suggests that Russia's FDI stock in Finland was € 307 million at the end of 2002. With this figure the Russian firms possess 1% of Finland's inward FDI stock, comparable to the Russian share in Estonia. Russia's share has decreased notably after Finland's EU accession, which multiplied FDI inflow from other EU countries to Finland (Table 41).

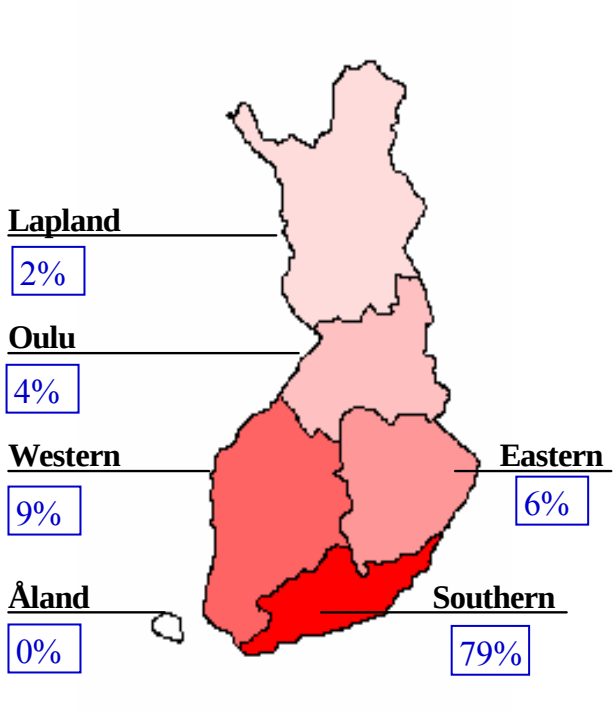
Table 41. The development of the Russian FDI stock in Finland

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Russia's FDI stock in Finland (€ mn)	179	170	148	241	241	254	275	272	241	240	306	307
Russia's share of Finland's inward FDI stock	6 %	5 %	4 %	5 %	4 %	4 %	3 %	2 %	1 %	1 %	1 %	1 %
EU's share of Finland's inward FDI stock	57 %	54 %	59 %	61 %	70 %	70 %	72 %	77 %	84 %	87 %	90 %	91 %

Source: Bank of Finland 2003.

Already some 2000 companies, where a Russian citizen holds a position of managing director or has a seat in the board of directors, have been registered in Finland. The overwhelming majority of them have been founded in the capital city region. Finland's regions bordering Russia have attracted a surprisingly small number of Russian firms. Though the number of the Russian-owned enterprises is relatively high in Finland, it needs to be remembered that 60% of Russian firms have a founding capital of only $ 2500. The Russian oil and gas majors have established the biggest companies in Finland. For example, Gazprom holds a quarter of Gasum and a half of North Transgas. Correspondingly, Nafta Moskva owns Teboil and Suomen Petrooli. These sister companies were already operating in Finland during the Soviet era. Their combined turnover was almost € 1 billion in 2002. Their overall market share in Finland was over 20% (see Map 11).

Map 11. Russian firms in Finland



Source: Jumpponen 2001.

The EU's next members – Bulgaria and Romania – have also received a considerable amount of Russian investments. Bulgaria has attracted over $ 200 million of Russian direct investments. The largest single investments have been placed in the gas and oil industry. Gazprom, for example, owns 50% of the gas trading and transporting company, Topenergo. Correspondingly, Lukoil has acquired a Bulgarian oil refinery. Lukoil plans to invest $ 65-67 million to modernise its refinery, in which it already has a 58%-stake.

Russian firms are eyeing Romanian firms with a particular interest. Gazprom is repeatedly being cited to have an interest in participating in the privatisation process of Romanian gas distribution companies. In Romania's oil sector, Russian oil major Lukoil owns a controlling interest in the Petrotel oil refinery, which was re-opened in 2002. Lukoil is further mentioned as a likely bidder in a privatisation procedure of a Romanian petrochemicals plant Oltchim, where a 53%-stake has been offered for sale.

According to Kalotay (2003), the second largest destination of Russian FDI outflow after the EU is the USA. The USA's share in Russia's OFDI stock is a quarter. It is very puzzling that Kalotay gives a much higher figure for the Russian investment in the USA than some US sources do. The difference between the UN and the US figure is so wide, some 30 times, that it stresses the need to conduct a further study on this issue.

It is practically an impossible task to receive reliable, accurate, and comprehensive statistical data on Russian investments in the CIS. Despite obvious information gaps, the authors argue that Russian investments in the CIS are considerable, even if they do not always appear in the statistics. One reason why Russian investors do not appear in the list of the foreign investors is simply the fact that Russian corporations have invested via another country. To put it differently, Russian corporations may be detected behind investments from Cyprus, Panama, the Bahamas, the Virgin

Islands, or even from the USA, or some EU countries, such as Austria, Ireland, Luxembourg, or the Netherlands (see Table 42).

Table 42. Russia's FDI stock in selected CIS countries

Target country	Russian FDI stock ($ mn)	Share country's inward	Rank among investor countries	Russian FDI per host country's citizen ($)
Belarus	>581	~ 41	n.d.	> 56
Kazakhstan	>500	~ 4	n.d.	> 30
Ukraine	>314	~ 7	4.	> 6
Moldova	>170	~ 28	n.d.	> 38
Armenia	>127	~ 18	n.d.	> 38

* The figure comprises the FDI inflow from all the ex-USSR.
Sources: National sources used for EU applicants; Goskomstat and UNCTAD for CIS; author's calculation.

Though the majority of the Russian FDI has landed in the enlarged EU, the USA, and the CIS, the importance of the rest of the world has lately increased in the eyes of Russian firms. Russian corporations can be found, for instance, in Africa (e.g. Algeria, Angola, Egypt, Guinea, Liberia, Morocco, Sudan, and Tunisia), Latin America (e.g. Brazil, Colombia, Cuba, and Peru) in the Middle East (e.g. Iran, Iraq, Israel, and Turkey), and Asia (e.g. China, India, Mongolia, and Singapore).

UNCTAD (2003) provides a list of the largest non-financial transnational companies based in CEE. Four Russian companies, namely Lukoil, Novoship, Primorsk Shipping, and Far Eastern Shipping, are on that list. In fact, Lukoil was ranked as the largest transnational corporation, based in ex-socialist countries, by its assets abroad. Its foreign assets amounted to almost $ 6 billion in 2001. The foreign assets of the other three Russian companies are clearly smaller than those of Lukoil, even when all three are added together. All these four Russian companies can be found among the top 10 transnational corporations based in TEs (Table 43).

Table 43. The Top 10 Non-financial transnational corporations based in Central and Eastern Europe (ranked by foreign assets - $ mn, 2001)

Rank (asset)	Corporation	Country	Industry	Foreign assets	TNI [14] (per cent)
1	**Lukoil**	**Russia**	**Petroleum and natural gas**	**5830.0**	**35.0**
2	**Novoship**	**Russia**	**Transport**	**998.9**	**55.5**
3	Latvian Shipping	Latvia	Transport	…	77.7
4	Pliva Group	Croatia	Pharmaceuticals	281.1	48.3
5	Hrvatska Elektroprivreda	Croatia	Energy	272.0	4.2
6	**Primorsk Shipping**	**Russia**	**Transport**	**267.3**	**63.2**
7	Gorenje Group	Slovenia	Domestic appliances	231.5	42.6
8	Krka	Slovenia	Pharmaceuticals	190.8	45.5
9	**Far Eastern Shipping**	**Russia**	**Transport**	**123.0**	**22.8**
10	Mercator	Slovenia	Retail trade	112.7	8.9

Source: UNCTAD 2003.

According to the UNCTAD, Lukoil is the most transnational corporation based in Central and Eastern Europe. The company covers a fifth of Russian oil production. Lukoil is not only one of the largest oil producers in Russia, but also one of the largest oil producers in the world. By

[14] The transnationality index (TNI) is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

international comparison, even Lukoil is a dwarf. The world's most transnational company, Vodafone, has foreign assets worth $ 188 billion. The foreign assets of International Paper, ranked the 100th most transnational firm, amount to ten billion against Lukoil's six billion dollars. Even if Lukoil has not yet climbed into the list of the top 100 transnational companies, it is just a matter of time, when it and other Russian oil majors can be found among the globe's 100 most transnational firms.

In the aforementioned list, Novoship is the second most transnational firm based in Russia. The firm has a subsidiary network (Intrugue Shipping Inc.) in Liberia, Malta, Sweden, the UK, and the USA. Novoship has a subsidiary (Transbosphore) in Turkey. All in all, Novoship owns some 70 ship, 45 of which have been registered either in Liberia or Malta.

Primorsk Shipping is the third most transnational Russian firm. Primorsk Shipping has a fleet of 45 tankers and one dry-cargo vessel, 30 of which are registered in either Cyprus or Singapore.

Far Eastern Shipping, the fourth most international Russian enterprise, has around 100 vessels, registered both in Russia and abroad. The company has agencies in Australia, China, New Zealand, North America, and the UK.

In this context, one has to stress that the UNCTAD list is not a fully representative, as for example, Russia’s largest outward investor Gazprom is missing from the list. Approximately 10-15 Russian corporations should be found in the list of the 25 most transnational companies based in CEE, if they had participated in the UNCTAD survey (for a more detailed description on Russian firms abroad, see Vahtra – Liuhto 2004).

6 BUSINESS DEVELOPMENT IN RUSSIA UNTIL 2020

According to Goskomstat, some four million enterprises and organisations have been registered in Russia. However, at the end of 2003, half of these had failed to re-register as required, implying they either ceased to exist or neglected their registration duty (Bank of Finland, 2004d). The authors believe that the Russian enterprise sector will substantially grow by the end of the next decade, provided that shuttle traders involved in the shadow exports will register in the official state register of enterprises and organisations.

Even if small companies are an essential source of employment, one should stress the fact that their number is not as crucial as the fact how competitive and innovative they are. The fast line for improving the competitiveness and innovation activity of the Russian enterprises is to attract foreign competition into the country, or alternatively, support the internationalisation of Russian firms. In free and fair competition, an enterprise has two options; either to improve its activities or to give its place for more fit companies. Neither of these two alternatives is negative for a reform-oriented economy.

Western experience has provided two important lessons. First, the companies do not change if they are not force to do so. A possibility to change leads only to a modification of existing practices. Second, the government measures creating protective shelters to support unfit companies are expensive and doomed to fail in long run. At the end, protective measures turn against the enterprises themselves since they give the enterprise management a wrong picture of the company's real competitiveness. Therefore, a change-forcing shock therapy with an acceptable number of bankruptcies is a better alternative than the gradual decay of competitiveness throughout the whole enterprise sector. One of the recommended measures forcing enterprises to change would be increasing energy prices, and investing the sum received from this increase to support innovations and R&D activities of firms (see Liuhto 1999).

Along with the expansion of the enterprise sector, the consolidation of Russia's corporations continues until the end of next decade. The Russian government, including even the ministry responsible for antimonopoly affairs, supports the business consolidation, as the underlying goal is to make Russian corporations larger, with an aim to make them more competitive internationally. The consolidation has already started in several natural resource-based industries, such as oil and metal business. These massive industrial groups do not necessarily focus on one sector (a vertical consolidation) but rather spread their activities into other fields of industries (a horizontal consolidation)[15].

One is likely to witness the consolidation boom in the banking sector, when smaller banks either merge with larger ones or become bankrupt. Russia's possible WTO accession is likely to increase foreign banks' role in the Russian banking sector. On the other hand, it remains to be seen what kind of role foreign industrial corporations will be able to gain in Russia, as the Russian lobbying groups obviously try to slow down the penetration of more competitive foreign units into the Russian market.

[15] "*A recent Russian study suggest both that concentration in Russian industry is high and that diversification has been substantial: ten groups dominate the industrial landscape, and data for five these groups show how they have also branched out from their original sectoral base. The ten groups examined in the study as a whole accounted in 2002 for 38.7% of industrial output, more than the ten largest 'chaebol' (conglomerates) in South Korea (32%, according to the report's authors), and more than the ten largest corporations in the US (25%)*" (EIU 2004, 38).

It seems very probable that the Russian SME sector expands, particularly in trade and service sectors. Small retail firms and service companies are to maintain their role, but a change is to be expected in terms of their independence i.e. currently independent kiosks are most probably pushed to join larger chains. These retail and service chains will be the countermeasure of the Russian businessmen towards the growing entry of the foreign-owned chains to the Russian market.

One of the biggest weaknesses of the Russian enterprise sector is a low number of medium-sized production units. As medium-sized enterprises create flexibility in production and generate stability in society, they should receive more attention in policy-making. The Russian government should invest more time and money in the development of promising medium-sized companies rather than only promote start-ups, since the survival rate of the latter is fairly low. Several facts slow down the development of industrial activities among the medium-sized firms.

First, medium-sized enterprises find difficult to survive in the shadow of Russia's industrial giants, as these gargantuan groups prefer acquiring mid-sized firms, instead of using them as subcontractors. Despite the current trend, it is likely that the industrial subcontracting will grow towards the end of the next decade.

Second, a lack of bank finance hinders the development of medium-sized production activities. Though there is a plenty of capital available in the country, banks are less willing to finance smaller units, as they get safer return for their crediting from larger corporations. Even if the Russian banking sector will be reformed already in the near future, one should not expect a breakthrough in enterprise funding before the land ownership rights are clear and the land trading mechanism operates effectively, and hence provides means for enterprises to give guarantees against bank credits.

Third, the mid-sized Russian firms continue to have difficulties in competing with more advanced imported goods. Legal imports are not the main brake of the enterprise development but the illegal imports, which distort the competition seriously. Therefore, the current modernisation plans of the Russian customs (e.g. the introduction of electrical customs declaration and aim at decreasing the number of persons involved in the border activities) and the anti-corruption measures are to improve the situation. However, it would be naïve to expect corruption and bureaucracy to disappear from Russia by 2020.

Fourth, entrepreneurs themselves prefer operating in fields where return on investment is faster and risk lower, though the profit margins in industrial production might be higher in longer run. As Russia's business environment has become more predictable during the past five years, entrepreneurs' interest in long-term industrial investments has grown. Should reformist ideology survive in Russia's future economic policy, it will result in a considerable increase in medium-scale production activities already in the 2010s.

Future changes in Russia's regional structure are likely to influence business development in the country. The administrative integration of Russian regions will contribute positively if the decreasing number of regions ('subjects') leads to policies that would better take into account regions' competitive advantages and shortages. In a large country like Russia, regional peculiarities require special attention. Policies supporting building of regional centres would be particularly needed in order to support sustainable development in those regions, which have sufficient basis for surviving in post-socialist reality. Moreover, regional policies taking into account the domestic migration from withering socialist cities to regional growth centres should be developed.

Russia's 11 regional million-cities may provide a good starting point in developing a network of competitive regional centres. The state support for the development of regional science parks and innovation centres would enhance this process. These regional R&D centres may be able to gather enough financial resources to support regional business development and act as counterparts in the co-operation with Western technological parks. The co-operation with the Western counterparts would speed up innovation processes and the commercialisation of these commodities. Furthermore, Russian scientists would receive additional finance for the development of their innovations, and Western companies would receive additional brain capacity with reasonable cost.

New innovations are needed to reform the Russian economy and to make it more competitive internationally. The conversion of the Soviet military complex towards competitive non-military production has been even more demanding than anticipated in the beginning of the 1990s, and therefore, only a few innovations in this sector have turned into competitive civilian commodities. Though this sector's contribution to Russia's economic reform has been modest, one should keep in mind that there are many talented professionals in this sector to be used in the creation of new civilian innovations.

For instance, the ICT sector, the biotechnology, and advantaged metal processing industry might be frontrunners in bringing Russia's industrial structures to the 21st century. The foreign companies would be outmost interested in taking part in the commercialisation of these products. Without foreign investments, it is not very likely that the Russian innovations will find their way to the world market, since innovation processes are often very long, and hence, extremely capital-intensive. Besides, Western companies have a certain competitive advantage vis-à-vis Russian firms in bringing new innovations to the public awareness. Furthermore, the building of Russia's country image as a modern technology producer would take decades without the image and brands of widely recognised Western corporations.

In addition to the R&D co-operation, also other fields would require foreign investments. In order to increase foreign investments in Russia, outside investors require a more solid protection of minority shareholder rights and transparent information about Russian corporations. The execution of International Accounting Standards (IAS) would be utmost necessary step in attracting more foreign investment into Russia.

Russia has not been particularly successful in attracting foreign investment. Last year however, was perhaps a turning point, as the FDI inflow jumped with almost 70% compared to the year 2002. Should Russia stay in the reform path and continue pursuing to the WTO membership, it is likely that both foreign investment and foreign trade flows will increase. The WTO membership does not only have a practical contribution of integrating Russia closer to the world economy, but it also contains a symbolic value showing that foreign companies will play an integral role in Russia's future development i.e. the WTO membership symbolises that foreign companies are not used only as temporary substitutions in the beginning of the business game until Russian players have strengthened themselves and are able to replace foreign companies at the end.

After accomplishing the WTO membership, the creation of the Common European Economic Space (CEES) between the EU and Russia will bring Russia closer to the family of European economies. Via the CEES, Russia's voice will become louder in European decision-making, since the economic interdependency grows in the future. Russia is becoming an increasingly important energy source for the enlarged union – even prior to the 2004-enlargement Russia provided a quarter of the

Union's imported oil and roughly 40% of natural gas – and correspondingly, the EU25 accounts for approximately 50% of Russia's foreign trade and over 50% of Russia's inward FDI stock. Most probably, the CEES will increase these shares. Besides, the CEES will aid Russian firms to penetrate into the European single market. Already at the moment, the EU is the main destination for Russian outward FDI, representing some half of Russia's outward FDI stock.

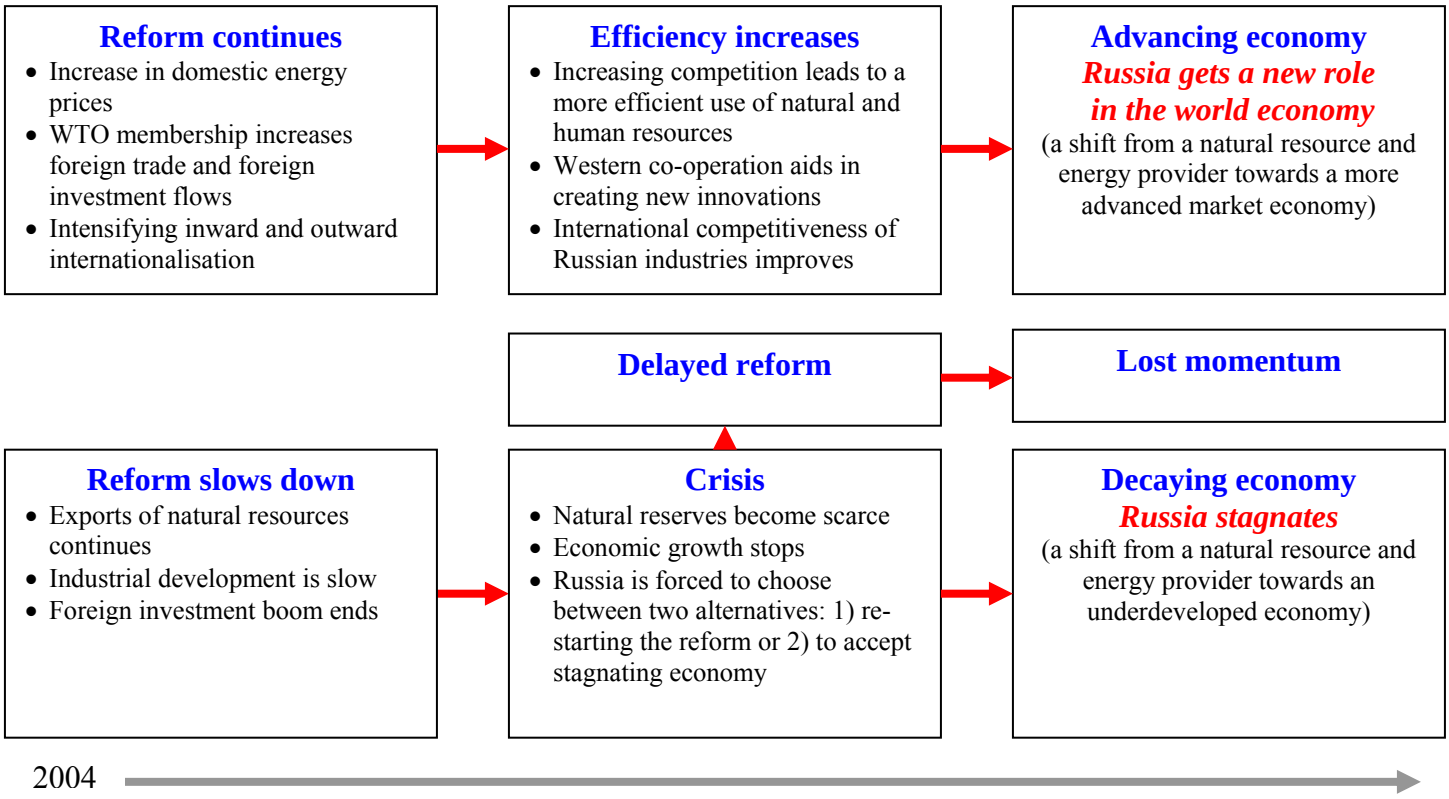
To conclude, even if Russia has become an attractive investment target for foreign firms due to the fast growth of her GDP and buying power, one should remember that high prices of oil and several natural resources have maintained the growth – not the most appropriate economic policies. In order to change Russia's role in the world economy from a one-sided natural resource provider towards a modern and internationally competitive economy, the Russian leadership should support the development of small and medium-sized enterprises, particularly their innovation activity. Second, the Russian government should support the regional re-organisation, which is based on the economic criteria, not on the political rationality. Third, the Russian government should support the two-way internationalisation of Russian businesses i.e. it should aid both the entry of foreign investors into Russia and promote the Russian companies' outward expansion, since the economic growth based on extensive exports of natural resources will come to an end sooner than most of us expect[16].

Should the Russian leadership give too a strong emphasis on the country's political unity and re-building of the country's superpower status at the expense of the economic rationality and economically-efficient allocation of resources, there is a risk that the reformist ideas will fade away and the economic reform would stop[17]. The end of the economic reforms would mean that Russian companies would continue to use natural resources in an efficient manner and the country would remain as a natural resource provider to the date that there are no reserves to be used any longer. This would be one of the darkest scenarios for Russia herself and for the rest of the world, as any bear left to starve becomes aggressive and a threat to its neighbourhood (see Figure 27).

[16] The current reserve-production ratio for Russian oil and natural gas is some 22 and 81 years respectively (BP 2003).

[17] "*There also remains a more fundamental question of whether liberal economic reforms can successfully coexist over the long term with an increasingly authoritarian political stance. The evidence in many countries suggest not: as the political climate becomes more repressive, economic reforms stall and the stop*" (EIU 2004, 7).

Figure 27. Future scenarios for the development of the Russian economy



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Appendices

Appendix 1. Determinations and Limitations in Studying the Russian Enterprises

The *first* confrontation in comparing the Russian enterprises with other countries appears in the classification method of the State Committee of the Russian Federation on Statistics, Goskomstat. In Russia the 'enterprises' are extended to include 'enterprises and organisations' of all kind. Even if the share of non-profit organisations is not significant in the total number of the organisations, the method differs from other countries' compilation of statistics.

The *second* inconsistency occurs as the size categorisation of enterprises and other economic entities in Russia varies from what is used, for instance, within the EU countries. The main difference is that in the Russian official statistics, only 'small enterprises' are identified as a separate category among the 'enterprises and organisations', while the EU commonly recognises four categories of enterprises; micro, small, medium-sized and large enterprises. In the EU the SMEs (small and medium-sized enterprises) have less than 250 employees (in the USA less than 500), whereas in Russia the small enterprises have less than 100 employees on average. It is clear, that with such differences, the Russian small enterprise sector is not comparable with the EU and the US SME sectors.

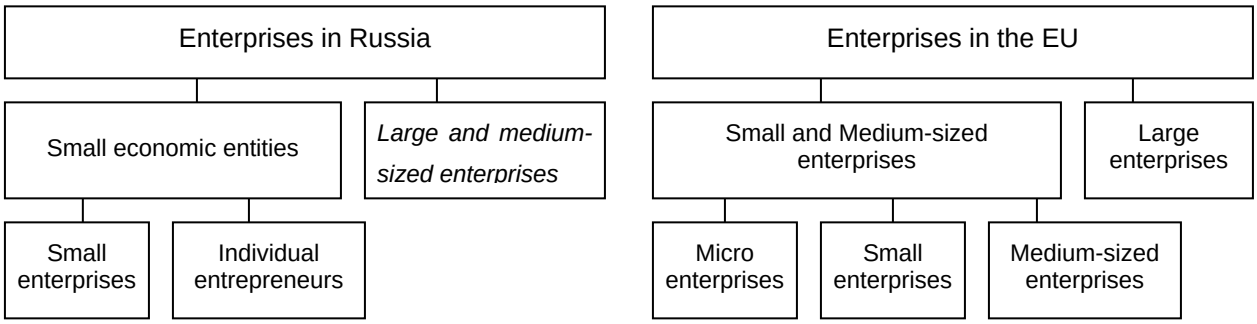
In Russia the small entrepreneurial units are defined in the Federal Law "On state support to small entrepreneurship in the Russian Federation" dated in 1995[18]. According to the law the small economic entities (SEE) include small enterprises as legal units (SE), farm enterprises (FE) and individual entrepreneurs without judicial form (IE). (ARP 2003) In this study we have used mainly two of the before-mentioned terms (SE and IE), excluding the farm enterprises because of their remote share among the small entrepreneurship and limited data available. The structure of the Russian enterprise sector, as defined it in this study, is illustrated in Figure 28.

[18] According to the Federal Law "On state support to small entrepreneurship in the Russian Federation" from 14 June 1995, small entrepreneurship entities include:

1) Small enterprises, registered as legal entities where
   - the ownership of Russian Federation or its subjects, municipalities, public and religious organisations, or charity and other funds does not exceed 25 per cent. The share of one or several legal entities that are not small entrepreneurships should not exceed 25 %;
   - the average number of employees does not exceed
     - 100 in industrial production, civil engineering or transport;
     - 60 in agriculture, science or engineering;
     - 30 in retail trade or consumer services;
     - 50 in other sectors or types of business.
2) Farm enterprises, and
3) Individual entrepreneurs, i.e. persons who perform entrepreneurial activities but are not registered as legal entities. The individual entrepreneurs gain from certain tax alleviation and confront less bureaucracy, which makes this form of entrepreneurship rather attractive.

(ARP 2003.)

Figure 28. Structure of the enterprise sector in Russia and in the EU



Source: adopted from Russian SME Observatory Report 2002.

In Russia only the group of small enterprises are subject to statistical record keeping, which makes the analyses of the other business forms rather complicated. Despite the fact that the IEs form the implicitly biggest share of all the small enterprise units in Russia, systematic analyses on this group have been limited, foremost because of a few undeniable problems: 1) many enterprises encourage their employees to take the status of an individual entrepreneur for tax reasons, which is likely to exaggerate the estimations; 2) much of the entrepreneurial activity is unregistered, which under-estimates the contribution of the IEs; and 3) there are many part-time self-employed persons, that are at the same time full-employed elsewhere in the economy. As a consequence, data on the IEs are subject to biases in many respects, and needs to be taken carefully.

The *third* deficiency of the analyses on the Russian enterprises is related to unreported economical actions. Shadow economy is a problem of any national economy, but seldom to the Russian extent. According to an estimation of the Sociological centre of the State Academy, the shadow economy accounts for 50% of the Russian GDP. In the European countries the figure rates between 6-10%. In Russia, the shadow economy is based on a number of facts. First of all, a great deal of economic activities in Russia is not at all reported. This means unregistered enterprises and individual entrepreneurs operating outside the official statistics, but also registered enterprises conducting unreported operations. Secondly, some of the unofficial small enterprises are set up by large enterprises in order to practice informal activities. Furthermore, there are registered enterprises that are no more operational, and special 'one-day firms' that are founded solely in order to cash black money, and literally do not last more than one day. (Krashakov 2002; Russian SME Observatory Report 2002)

Because of extensive shadow economy, it is extremely challenging to define the concrete amount of active enterprises in Russia. In Russia the grey economy exists because of two main factors; the heavy tax burden of the enterprises, and the bureaucracy of the state regulations. Most of the enterprises operating in the grey economy are small employing 1-5 employees. (Krashakov 2002; Russian SME Observatory Report 2002)

Appendix 2. The 100 Largest Corporations in Russia

Corporation	Main field of operation	Turnover 2002 ($ mn)	Growth 2002-2001 (%)	Employees 2002 (1000)	Market capitalisation 1.9.2003 ($)
1 Gazprom	Oil and natural gas	19 571.0	4.3	295.5	28148.8
2 RAO UES	Electric energy	16 052.6	9.3	622.0	13032.2
3 Lukoil	Oil and natural gas	15 449.0	13.9	150.0	16761.1
4 Yukos	Oil and natural gas	11 373.0	20.2	100.0	32820.8
5 Surgutneftegaz	Oil and natural gas	6 407.7	22.6	98.1	15524.3
6 TNK	Oil and natural gas	6 075.4	26.2	81.4	5867.9
7 Sibneft	Oil and natural gas	4 776.7	43.6	30.0	13152.8
8 RusAl	Metallurgy	3 960.0	3.7	69.9	n.d.
9 AvtoVAZ	Machine building	3 808.4	-8.1	121.6	692.9
10 Tatneft	Oil and natural gas	3 465.9	7.8	56.9	2499.8
11 Norilsk Nickel	Metallurgy	3 354.2	-1.7	91.2	8528.7
12 Slavneft	Oil and natural gas	2 718.7	-3.3	28.6	2139.4
13 Rosneft	Oil and natural gas	2 669.0	23.0	58.6	n.d.
14 Sidanko	Oil and natural gas	2 631.3	37.8	29.0	3602.4
15 Magnitogorsk Metal K.	Metallurgy	1 928.4	27.7	34.3	n.d.
16 Severstal	Metallurgy	1 923.6	17.4	39.6	2152.2
17 Alrosa	Diamonds and precious metals	1 717.8	-3.5	40.2	n.d.
18 Novolipetsk Metal K.	Metallurgy	1 699.5	43.2	46.3	n.d.
19 Rosenergoatom	Electric energy	1 690.3	18.7	48.6	n.d.
20 Evraz Holding	Metallurgy	1 589.2	23.0	63.9	n.d.
21 Bashneft	Oil and natural gas	1 426.3	-2.5	46.4	558.9
22 UGMK Holding	Metallurgy	1 185.7	8.8	63.9	n.d.
23 GAZ	Machine building	1 051.6	14.9	77.3	95.0
24 Komsomolskoe-na-Amure Aviation	Machine building	1 008.0	-13.9	20.7	n.d.
25 Pipeline Metal Co.	Metallurgy	959.5	10.0	47.7	n.d.
26 TVEL	Machine building	877.0	8.7	51.1	n.d.
27 Ilim Pulp	Wood processing and paper	848.3	23.2	49.0	n.d.
28 Wimm-Bill-Dann	Foodstuffs and beverages	824.7	31.4	16.2	929.3
29 KamAZ	Machine building	743.1	-5.9	53.0	250.3
30 Kuznetsk Metal K.	Metallurgy	714.3	54.9	29.9	n.d.
31 SUAL	Metallurgy	709.3	7.8	25.5	558.6
32 Baltika	Foodstuffs and beverages	682.7	38.4	8.1	1531.9
33 Niznekamskneftehim	Chemical and petrochemical	658.9	13.3	19.6	309.8
34 Mechel	Metallurgy	593.6	13.4	25.6	142.6
35 Phillip Morris Izora	Tobacco	584.5	58.6	0.8	n.d.
36 Irkut	Machine building	562.2	161.7	15.5	292.7
37 Metalloinvest	Metallurgy	557.6	48.5	34.0	n.d.
38 Aerocosmic Equipment	Machine building	529.5	37.0	42.5	n.d.
39 Apatit	Chemical and petrochemical	522.8	65.8	14.1	9.4
40 Salavatnefteorgsintez	Chemical and petrochemical	519.1	8.7	13.3	169.7
41 Petro	Tobacco	513.5	35.5	1.8	n.d.
42 Tatenergo	Electric energy	504.3	7.3	23.1	n.d.
43 Ural Wagon Plant	Machine building	474.7	86.5	31.9	n.d.
44 Acron	Chemical and petrochemical	460.8	11.8	13.3	n.d.
45 OMZ	Machine building	435.4	46.6	43.0	252.8
46 Irkutskenergo	Electric energy	390.0	20.2	21.6	469.3
47 Vyksunsk Metallurgical Factory	Metallurgy	388.0	6.7	16.3	163.8
48 APK Tserkizovsk	Foodstuffs and beverages	383.1	12.5	15.4	n.d.
49 Oskolsk Electro-Metallurgical K.	Metallurgy	370.9	13.4	12.3	n.d.
50 Izmash	Machine building	367.3	97.7	28.0	20.2

51 Nosta	Metallurgy	342.2	16.4	21.3	24.8
52 Ufimsk Motor Building Factory	Machine building	341.3	56.8	21.1	n.d.
53 Silovye Mashiny	Machine building	337.2	31.7	19.1	n.d.
54 Mars	Foodstuffs and beverages	336.2	44.0	1.4	n.d.
55 VSMPO-Avisma	Metallurgy	322.1	17.5	22.0	234.9
56 Energomash	Machine building	305.3	13.1	20.4	n.d.
57 Noizidler Syktyvkar	Wood processing and paper	302.8	14.5	5.5	n.d.
58 Titan	Wood processing and paper	293.6	8.9	20.7	n.d.
59 Ligett-Dukat	Tobacco	286.9	13.8	1.4	n.d.
60 Ochakovo	Foodstuffs and beverages	271.6	16.8	3.6	n.d.
61 Vareganneft	Oil and natural gas	269.6	2.3	n.d.	n.d.
62 UAZ	Machine building	267.0	16.5	24.2	45.0
63 Novosibirskenergo	Electric energy	266.2	22.6	12.8	78.4
64 Niznekamskshina	Chemical and petrochemical	264.6	4.0	14.3	14.7
65 Polyos	Diamonds and precious metals	257.5	104.9	2.8	n.d.
66 Ufaneftehim	Oil and natural gas	256.9	-8.2	3.0	67.5
67 Lebedinsky GOK	Metallurgy	246.7	9.9	13.8	n.d.
68 Kristall (Smolensk)	Diamonds and precious metals	246.6	18.2	2.9	n.d.
69 Silvinit	Chemical and petrochemical	245.9	12.4	10.2	133.0
70 Stinol	Machine building	244.3	26.9	5.1	n.d.
71 Chelyabinsk Pipeline Plant	Metallurgy	242.9	2.8	9.4	105.0
72 Yakutugol	Coal extraction	239.7	20.9	9.6	n.d.
73 Uralkaly	Chemical and petrochemical	235.8	5.3	15.8	151.2
74 Tulatsermet	Metallurgy	231.2	21.9	7.3	n.d.
75 Vorkutaugol	Coal extraction	227.9	15.8	18.4	n.d.
76 Kazanorgzintes	Chemical and petrochemical	227.5	0.0	7.0	58.9
77 Zavolsk Motor Plant	Machine building	218.4	31.2	17.5	67.1
78 Avtodiesel	Machine building	214.4	10.1	22.9	n.d.
79 Kuzbassugol	Coal extraction	213.2	-8.2	23.9	n.d.
80 Agromashholding	Machine building	213.2	2.2	13.7	n.d.
81 Svetogorsk	Wood processing and paper	210.3	24.6	2.6	n.d.
82 Saturn	Machine building	204.9	47.6	21.3	n.d.
83 Rostselmash	Machine building	204.0	18.5	16.8	17.3
84 Southern Kuzbass	Coal extraction	201.5	11.4	12.0	n.d.
85 Ufimsk Oil Processing Factory	Oil and natural gas	200.2	15.0	1.4	76.3
86 Kazan Helicopter Plant	Machine building	198.9	-13.3	7.6	n.d.
87 Perm Motor Plant	Machine building	198.0	39.3	17.3	15.0
88 Donsk Tabak	Tobacco	195.8	16.8	1.9	n.d.
89 Confectionary Rossia	Foodstuffs and beverages	191.4	30.1	2.3	n.d.
90 AvtoVAZagregat	Machine building	191.3	35.4	4.4	n.d.
91 Philipp Morris Kuban	Tobacco	190.8	29.3	1.2	n.d.
92 Mikoyanovsk Meat K.	Foodstuffs and beverages	186.9	41.5	3.7	n.d.
93 Volga	Wood processing and paper	184.5	-14.4	3.9	n.d.
94 Altai-Koks	Metallurgy	182.2	39.3	5.4	n.d.
95 Group Tsaritsino	Foodstuffs and beverages	180.6	12.2	3.7	n.d.
96 Togliattikautsuk	Chemical and petrochemical	177.9	37.3	8.2	n.d.
97 Azot (Kemerovo)	Chemical and petrochemical	175.6	-2.1	11.4	n.d.
98 Automobile Factory Ural	Machine building	174.8	n.d.	18.6	n.d.
99 Kondopoga	Wood processing and paper	172.1	-11.7	7.3	138.2
100 Novo-Ufimsk Oil Processing Factory	Oil and natural gas	171.8	-37.1	2.2	69.1
Total		**144 470.6**	**21.1**	**3490.9**	**151 974.0**

Source: Expert 2004.

Appendix 3. The 50 Largest Corporations in North-West Russia [19]

Company	Main field of operation	Turnover 2002 ($ mn)	Change % (2001-02)	Employees (1000)
1 Severstal	Metallurgy	1 923.6	17.4	39.6
2 Lenenergo	Electric energy	717.9	33.0	17.6
3 Baltika	Foodstuffs and beverages	676.0	63.7	7.9
4 Severgazprom	Oil and natural gas	624.8	23.5	13.8
5 Phillip Morris Izora	Tobacco industry	584.5	58.6	0.8
6 Apatit	Chemical and petrochemical	522.8	65.8	14.1
7 Petro	Tobacco industry	513.5	35.5	1.8
8 Kirishinefteorgsintez	Chemical and petrochemical	510.3	11.1	6.3
9 Kolsk Metallurgical Company	Metallurgy	424.2	3.2	16.8
10 Acron	Chemical and petrochemical	320.9	7.7	9.9
11 Noizidler Syktyvkar	Wood processing and paper	302.8	14.5	5.5
12 Titan	Wood processing and paper	293.6	8.9	20.7
13 Lukoil-Komi	Oil and natural gas	275.7	n.d.	4.4
14 Kotlas Paper	Wood processing and paper	235.2	14.4	8.6
15 Vorkuta Coal	Coal extraction	227.9	15.8	18.4
16 Vologda Energo	Electric energy	222.3	23.8	5.5
17 Komi Energo	Electric energy	219.1	28.4	9.7
18 Svetogorsk	Wood processing and paper	210.3	24.6	2.6
19 Kolenergo	Electric energy	197.0	28.1	5.3
20 Kondopoga	Wood processing and paper	172.1	-11.7	7.3
21 Tserepovetsk Steel Factory	Metallurgy	171.0	6.9	6.9
22 Kovdorsk GOK	Metallurgy	162.5	30.7	5.7
23 Lenstro	Building materials	161.6	19.7	7.0
24 Heineken	Foodstuffs and beverages	159.3	27.0	n.d.
25 Arhenergo	Electric energy	150.4	10.5	5.8
26 Kirovsk Factory	Machine building	148.1	5.6	9.7
27 Karelsky okatish	Metallurgy	141.3	10.7	8.1
28 Metallurg	Metallurgy	138.5	n.d.	7.7
29 Leningradsk Metal Factory	Machine building	138.0	76.0	6.1
30 Ammofos	Chemical and petrochemical	135.4	-28.7	5.0
31 Lukoil (Kaliningrad unit)	Oil and natural gas	133.9	14.7	2.7
32 Peterburg prodakts interneshnl	Machine building	130.6	45.4	0.4
33 Pirometr	Machine building	120.3	-4.8	0.7
34 Polyarnoe Siyanie	Oil and natural gas	119.6	-15.2	n.d.
35 Karelenergo	Electric energy	114.8	38.4	3.1
36 Severnaya neft	Oil and natural gas	111.0	19.1	2.6
37 Segesha	Wood processing and paper	106.6	24.7	5.3
38 Rothmanns-Nevo	Tobacco industry	103.2	53.2	0.3
39 Group LSR	Building materials	100.4	n.d.	7.6
40 Tebukneft	Oil and natural gas	99.5	-3.2	3.4
41 Elektrosila	Machine building	86.8	37.1	5.7
42 Vena	Foodstuffs and beverages	86.2	32.5	0.7
43 Era	Chemical and petrochemical	84.8	23.3	0.8
44 Baltisk Factory	Machine building	81.6	-51.2	6.4
45 Murmansky tralovy flot	Foodstuffs and beverages	74.8	-1.4	2.8
46 Azot (Tserepovets)	Chemical and petrochemical	72.8	26.1	3.3
47 Nevskaya kosmetika	Cosmetics	72.5	18.8	0.9
48 Yantarenergo	Electric energy	71.8	36.2	3.0
49 Sankt-Petersbursk KPK	Wood processing and paper	71.3	11.0	2.1
50 Telebalt	Machine building	71.0	354.3	0.4
Total		**12 594.1**	**25.7**	**330.8**

Source: Expert 2004.

[19] All the figures for the companies based in North-West Russia are not identical with the federal top 100. Another deficiency worth mentioning is the fact that Ilim Pulp, having its headquarters in St. Petersburg, is not been included in the above list, though its turnover was around $ 1 billion.

Appendix 4. Russia's 100 Largest Exporters

Rank	Company/holding	Industry	Exports ($ million) 2001	Exports ($ million) 2000	Number of export countries
1.	Gazprom	Oil and gas industry	16400.0	13900.0	27
2.	Lukoil	Oil and gas industry	6624.5	6218.1	32
3.	Yukos	Oil and gas industry	5682.2	5247.5	40
4.	Tyumen Oil Company (TNK)	Oil and gas industry	5597.3	3477.5	40
5.	Surgutneftegaz	Oil and gas industry	2356.0	1700.5	13
6.	Ruskij Aljumini	Metallurgy and mining	2231.2	2161.6	52
7.	Tatneft	Oil and gas industry	2136.0	2629.5	43
8.	Slavneft	Oil and gas industry	1762.7	1261.6	25
9.	Norilsk Nickel	Metallurgy and mining	1754.5	2246.9	23
10.	Sibneft	Oil and gas industry	1650.7	1699.9	29
11.	Rosneft	Oil and gas industry	1346.7	1298.5	n.d.
12.	Alrosa	Metallurgy and mining	1173.5	883.8	8
13.	Bashneft	Oil and gas industry	871.7	858.7	21
14.	Magnitogorsk Metallurgical K.	Metallurgy and mining	827.4	849.2	72
15.	Novolipetsk Metallurgical K.	Metallurgy and mining	697.0	857.0	86
16.	Sibur	Chemical and petrochemical industry	690.4	179.3	66
17.	Severstal	Metallurgy and mining	667.7	1066.7	98
18.	SUAL	Metallurgy and mining	575.3	506.4	40
19.	TVEL	Machine building	538.0	458.0	23
20.	Evraz Holding	Metallurgy and mining	505.5	470.8	42
21.	Itera Holding	Oil and gas industry	435.1	641.9	6
22.	Kuzbassrazrezugol	Coal extraction	375.7	205.6	24
23.	Niznekamskneftehim	Chemical and petrochemical industry	355.4	415.8	44
24.	Urals Mining & Metallurgical Company (UGMK)	Metallurgy and mining	352.7	424.3	36
25.	Metalloinvest	Metallurgy and mining	328.8	257.6	47
26.	Ilim Pulp	Wood processing industry	301.2	340.0	87
27.	Fosagro Apatit Group	Chemical and petrochemical industry	257.6	70.1	32
28.	RAO UES	Electricity production	254.1	212.3	12
29.	Acron	Chemical and petrochemical industry	246.5	222.2	45
30.	VSMPO-AVISMA Group	Metallurgy and mining	245.5	155.0	35
31.	AvtoVaz	Machine building	242.3	277.0	38
32.	Kristall (Smolensk)	Metallurgy and mining	220.0	240.0	7
33.	Uralkaly	Chemical and petrochemical industry	191.0	242.0	35
34.	Evrohim	Chemical and petrochemical industry	187.3	162.2	46
35.	Kazan Helicopter Plant	Machine building	170.8	91.9	14
36.	Volga	Wood processing industry	164.7	151.6	61
37.	Kondopoga	Wood processing industry	161.0	137.3	39
38.	Bashkirneftehim	Chemical and petrochemical industry	153.6	442.8	24
39.	Volgograd Aljumini	Metallurgy and mining	151.6	189.9	6
40.	Agrochemical corporation Azot	Chemical and petrochemical industry	149.7	125.6	50
41.	Yakutugol	Coal extraction	135.0	140.0	6
42.	Moscow Oil Company	Oil and gas industry	130.7	529.4	11
43.	Metsel	Metallurgy and mining	130.2	99.7	30
44.	Togliattiazot	Chemical and petrochemical industry	127.4	165.8	5
45.	Nosta	Metallurgy and mining	117.3	88.9	28
46.	United Metallurgical K.	Metallurgy and mining	113.4	102.1	37
47.	Syktyvkar Wood K.	Wood processing industry	110.0	110.0	82
48.	Polyarno Siyanie	Oil and gas industry	105.7	169.1	5
49.	Pipe Metallurgical Company	Metallurgy and mining	105.0	55.8	38
50.	Sibirsky Aluminium	Machine building	100.7	190.0	42
51.	Kuibyshevazot	Chemical and petrochemical industry	99.4	104.6	23
52.	Motovilihinskie Plants	Machine building	96.6	n.d.	4
53.	Solikamskbumprom	Wood processing industry	93.1	86.4	64
54.	Titan	Wood processing industry	91.0	130.9	51
55.	Altai Coke	Metallurgy and mining	86.3	16.2	15

56.	Severnaya Neft	Oil and gas industry	83.9	63.1	7
57.	Sayanskhimplast	Chemical and petrochemical industry	82.4	86.0	1
58.	Nadvoitsk Aluminium Plant	Metallurgy and mining	75.8	77.7	7
59.	Ulan-Ude Aviation Plant	Machine building	71.6	29.0	6
60.	VMS (United Company of Recycled Metals and Alloys)	Metallurgy and mining	67.7	39.8	18
61.	Kusbassugol	Coal extraction	62.4	35.9	17
62.	VIZ Steel	Metallurgy and mining	61.5	52.5	37
63.	Ural Automobile Plant	Machine building	60.2	20.0	15
64.	Elektrotsink	Metallurgy and mining	54.2	61.8	7
65.	Segeza Pulp Mill	Wood processing industry	53.0	63.2	59
66.	Solikamsk Magnesium Works	Metallurgy and mining	52.6	44.3	17
67.	Continentalinvest	Wood processing industry	51.8	5.5	29
68.	Sukhoy Non-Ferrous Metals Recycle	Metallurgy and mining	48.7	60.0	4
69.	Baikal Ugol	Coal extraction	48.5	n.d.	17
70.	Taganrog Metallurgical Works	Metallurgy and mining	46.0	48.0	33
71.	Novoeniseisk Wood Processing K.	Wood processing industry	44.4	48.0	18
72.	Podolsk Non-Ferrous Metal Plant	Metallurgy and mining	43.8	22.9	9
73.	Sibmash Holding	Machine building	43.1	--	3
74.	Amur Metal	Metallurgy and mining	41.2	45.4	3
75.	Silovye Machiny	Machine building	40.2	94.5	36
76.	Kaustik	Chemical and petrochemical industry	40.2	44.7	23
77.	Terneyles	Wood processing industry	39.1	37.3	3
78.	Vanadium Tula	Metallurgy and mining	38.8	43.9	11
79.	Lesosibirsky Wood Processing K.	Wood processing industry	38.2	43.5	20
80.	Baikal Wood Processing K.	Wood processing industry	37.6	52.4	6
81.	Schekinoazot	Chemical and petrochemical industry	37.4	45.3	26
82.	Ufahimprom	Chemical and petrochemical industry	37.2	35.7	17
83.	Izhstal	Metallurgy and mining	37.1	34.4	35
84.	Solombalskij Wood Processing K.	Wood processing industry	36.4	44.0	34
85.	Kazanorgsintez	Chemical and petrochemical industry	36.1	46.8	22
86.	Moscow Coke Gas Works	Metallurgy and mining	35.4	17.0	18
87.	Mars	Foodstuffs	35.3	26.7	18
88.	Energomash	Machine building	34.0	46.6	30
89.	Serov Ferroalloys Works	Metallurgy and mining	33.2	57.4	11
90.	Metallurg	Metallurgy and mining	32.8	37.2	17
91.	Volzhsky Orgsynthese	Chemical and petrochemical industry	32.3	30.4	18
92.	Chelyabinsk Electrolytic Zinc Plant	Metallurgy and mining	32.0	32.8	11
93.	Zeya Wood Processing K.	Wood processing industry	30.0	n.d.	3
94.	Metal Casting Works	Metallurgy and mining	29.8	n.d.	11
95.	Lipetsk Iron Works Svobovny Sokol	Metallurgy and mining	28.9	9.8	11
96.	Energya (Korolev Rocket and Space Corporation)	Machine building	26.9	67.5	7
97.	Irkutsklesprom	Wood processing industry	26.4	27.0	3
98.	Chelyabinsk Electrometallurgical K.	Metallurgy and mining	26.3	23.1	9
99.	Soda	Chemical and petrochemical industry	26.1	20.9	27
100.	V. P. Glushko SMU Energomash	Machine building	25.9	19.0	2
Total			**62685.3**	**56765.3**	**27 (mean)**

Source: Expert 2002.

Appendix 5. Investment Potential of the Russian Regions in 2002-2003

Ranking of investment potential		Ranking of risk	Region	Share of overall potential in Russia (%)	Change in the share of potential (%)	Ranking of the different indicators creating the investment potential in 2002-2003								Change in the ranking of potential	
2002-2003	2001-2002	2002-2003		2002-2003	from 2002-2003 to 2001-2002	Job	Consumer	Manufacturing	Financial	Institutional	Innovative	Infrastructural	Natural resources	from 2002-2003 to 2001-2002	from 2002-2003 to 1998-1999
1	1	6	Moscow	16.379	-1.909	1	1	1	1	1	1	1	89	0	0
2	2	2	St. Petersburg	5.229	-0.432	2	3	7	3	2	3	2	89	0	0
3	3	8	Moscow obl.	4.853	0.205	3	2	3	4	3	2	3	51	0	0
4	4	65	Khanty-Mansis AO	2.704	0.03	24	13	2	2	12	18	79	7	0	2
5	5	47	Sverdlovsk obl.	2.656	0.071	11	4	4	5	5	5	47	8	0	-1
6	6	16	Samara obl.	2.329	0.071	7	6	6	8	7	6	22	47	0	1
7	8	7	Nizhny Novgorod obl.	2.252	0.101	8	10	14	14	10	4	32	58	1	3
8	7	67	Krasnoyarsk krai	2.193	-0.012	9	12	9	10	13	17	77	2	-1	-3
9	10	10	Krasnodar krai	2.072	0.03	6	5	11	6	6	19	11	31	1	4
10	9	5	Rep. Tatarstan	1.987	-0.067	16	9	5	7	8	10	36	37	-1	-1
11	12	32	Perm obl.	1.957	-0.006	25	14	13	12	21	11	56	5	1	-3
12	13	14	Rostov obl.	1.956	0	5	7	16	13	4	13	19	28	1	2
13	14	62	Kemerovo obl.	1.955	0.053	12	11	15	16	18	33	54	4	1	-2
14	11	75	Chelyabinsk obl.	1.913	-0.086	10	15	10	15	9	9	33	24	-3	1
15	15	11	Rep. Bashkortostan	1.795	0.033	13	8	8	9	15	14	41	25	0	-3
16	16	61	Irkuts obl.	1.59	-0.037	19	16	17	17	16	32	76	6	0	0
17	17	83	Yamalo-Nenets AO	1.516	0.093	56	34	12	11	62	71	83	3	0	0
18	18	69	Rep. Sakha	1.446	0.025	60	29	23	18	45	44	86	1	0	0
19	19	38	Novosibirsk obl.	1.442	0.084	15	17	24	21	11	8	57	36	0	0
20	21	28	Saratov obl.	1.318	0.103	4	23	22	22	22	20	31	32	1	1
21	22	26	Leningrad obl.	1.294	0.111	31	38	19	33	25	7	7	55	1	14
22	23	52	Khabarov krai	1.19	0.035	14	26	26	20	32	42	65	10	1	7
23	20	58	Primorski krai	1.154	-0.108	17	24	36	24	14	24	53	18	-3	0
24	24	3	Belgorod obl.	1.152	0.054	41	33	28	41	35	40	8	9	0	-4
25	25	29	Vologda obl.	1.141	0.054	18	22	18	23	17	25	43	29	0	-3
26	26	33	Voronezh obl.	1.11	0.038	22	21	30	31	24	15	18	53	0	1
27	27	56	Altai krai	1.059	0.019	26	20	33	29	19	30	50	22	0	-3
28	28	59	Tula obl.	1.059	0.069	29	32	32	39	34	12	5	65	0	6
29	31	27	Stavropol krai	1.018	0.112	20	18	29	26	23	29	44	39	2	2
30	29	51	Orenburg obl.	0.957	0.003	33	28	21	27	39	49	42	19	-1	-5
31	33	44	Omsk obl.	0.944	0.111	27	19	34	25	20	28	59	41	2	-5
32	30	37	Murmansk obl.	0.908	-0.016	42	36	38	30	50	39	52	13	-2	-4
33	34	1	Yaroslavl obl.	0.866	0.072	30	35	31	32	26	23	29	80	1	3
34	39	30	Tyumen obl.	0.861	0.144	21	27	46	28	28	26	62	33	5	-4
35	32	13	Kaliningrad obl.	0.851	0.01	37	56	58	55	29	45	4	40	-3	6
36	36	43	Kursk obl.	0.82	0.029	54	51	43	54	41	55	6	21	0	-3
37	35	15	Valdimir obl.	0.809	0.017	36	48	39	45	30	22	13	69	-2	-5
38	41	20	Lipetsk obl.	0.792	0.082	44	40	25	35	44	63	10	73	3	5
39	38	25	Udmurtia Rep.	0.765	0.027	45	39	27	36	31	36	38	63	-1	-2
40	42	19	Kaluga obl.	0.763	0.056	38	57	48	59	38	16	15	70	2	0

41	53	71	Bryansk obl.	0.756	0.149	23	49	52	52	33	46	12	68	12	-2
42	43	9	Volgograd obl.	0.75	0.051	47	37	20	34	27	41	60	62	1	3
43	37	72	Rep. Komi	0.739	-0.028	55	25	35	19	55	48	73	23	-6	8
44	44	42	Tver obl.	0.73	0.034	34	44	41	44	37	31	26	64	0	-6
45	51	31	Ryazan obl.	0.707	0.079	40	50	37	43	40	43	21	59	6	-1
46	45	46	Arkhangel obl.	0.698	0.003	39	31	47	38	42	57	67	20	-1	1
47	48	41	Penza obl.	0.682	0.042	28	47	51	49	52	34	34	52	1	2
48	46	49	Ulyanovsk obl.	0.675	-0.013	51	46	44	47	46	21	40	60	-2	-6
49	40	22	Tomsk obl.	0.663	-0.055	32	42	40	37	53	27	78	30	-9	-3
50	47	21	Chuvashia Rep.	0.651	-0.003	48	54	49	57	43	37	14	83	-3	-2
51	50	66	Amur obl.	0.649	0.019	52	59	60	61	60	70	66	12	-1	3
52	54	81	Rep. Dagestan	0.623	0.044	35	30	64	40	49	59	39	45	2	3
53	49	70	Chita obl.	0.617	-0.02	73	61	66	56	64	62	69	11	-4	-1
54	52	36	Smolensk obl.	0.61	-0.014	62	45	45	53	51	61	16	72	-2	-4
55	55	50	Tambov obl.	0.586	0.027	63	41	57	46	58	38	28	66	0	4
56	56	17	Astrakhan obl.	0.572	0.021	49	53	55	48	47	65	48	26	0	5
57	58	54	Rep. Buryatiya	0.57	0.026	57	52	62	60	59	51	71	15	1	0
58	59	24	Kirov obl.	0.566	0.041	53	43	42	42	36	56	58	54	1	-2
59	57	12	Orel obl.	0.554	0.004	61	58	59	51	67	35	20	76	-2	-6
60	61	53	Rep. Northern Osetia	0.518	0.017	43	69	71	65	72	72	9	56	1	7
61	60	45	Rep. Mordovia	0.51	0.003	46	67	56	62	68	52	27	67	-1	-1
62	62	35	Rep. Karelia	0.507	0.022	58	55	53	58	57	64	45	38	0	2
63	64	18	Pskov obl.	0.477	0.021	65	65	68	69	54	60	17	77	1	0
64	63	4	Novgorod obl.	0.475	-0.007	66	63	54	63	56	54	30	78	-1	2
65	65	64	Sahkalin obl.	0.469	0.025	64	62	50	50	48	50	61	42	0	0
66	66	40	Ivanovo obl.	0.463	0.02	50	66	63	68	61	53	37	84	0	-8
67	67	57	Kabardino-Balkaria rep.	0.454	0.032	59	64	67	67	71	73	24	49	0	4
68	68	63	Kurgan obl.	0.43	0.022	68	60	61	64	63	47	49	61	0	-6
69	70	68	Magadan obl.	0.364	0.003	75	75	73	72	74	68	84	16	1	-1
70	69	23	Kostromo obl.	0.358	-0.008	67	68	65	70	70	58	55	71	-1	0
71	71	60	Rep. Mary El	0.347	-0.008	69	71	72	73	65	67	46	46	0	-2
72	73	48	Rep. Adygeya	0.316	0.029	72	74	76	76	73	74	23	86	1	2
73	72	55	Rep. Khakasiya	0.301	-0.009	70	70	69	71	75	83	64	34	-1	0
74	74	78	Chukotsky AO	0.298	0.014	81	81	79	74	81	78	82	14	0	6
75	75	82	Kamchatka obl.	0.27	0.006	74	72	70	66	69	66	75	43	0	-3
76	77	85	Karachaevo-Cherkesskaya rep.	0.269	0.023	71	73	75	77	76	69	51	57	1	0
77	76	87	Rep. Ingushetia	0.222	-0.026	76	77	84	79	80	85	35	87	-1	0
78	78	86	Taimyrsky AO	0.22	0.003	85	84	87	89	84	86	87	17	0	-3
79	89	89	Chechnya	0.204	0.173	89	89	89	83	87	76	25	75	10	7
80	79	74	Rep. Kalmykiya	0.181	-0.018	77	80	77	75	66	79	70	48	-1	1
81	80	73	Jewish AO	0.176	0.01	79	78	78	81	79	75	63	44	-1	-2
82	81	84	Rep. Tyva	0.16	0.01	80	76	81	80	78	77	85	27	-1	-4
83	82	34	Rep. Altay	0.138	-0.006	78	79	82	78	77	84	72	50	-1	-1
84	83	80	Ust-Ordinsk Buryats AO	0.084	0.002	84	85	83	87	85	88	68	82	-1	-1
85	85	39	Nenets AO	0.075	0.006	86	83	74	82	82	80	88	74	0	3
86	84	76	Evenks AO	0.075	0	88	88	88	88	88	82	89	35	-2	3
87	87	79	Aga Buryats AO	0.064	0.005	83	86	86	85	86	81	74	85	0	-2
88	86	77	Komi-Permyaks AO	0.064	0.004	82	82	85	84	83	87	80	81	-2	-4
89	88	88	Koryaks AO	0.055	0	87	87	80	86	89	89	81	79	-1	-2

Source: Expert 2004.

Appendix 6. Administrative Division of the Russian Federation.

Source: Maps of Russia 2004.