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Russia

New World Bank *Doing Business* report assesses business environments in 30 Russian cities. The World Bank and the International Finance Corporation made their previous sub-national assessment of Russia's business climate in 2008. It covered just ten Russian cities.

The global *Doing Business* report, which comprises over 180 countries, has ranked Russia around 120th in recent years. At the same time, Russia is among the 30 countries that have made the greatest strides in improving the business climate as measured. In the global comparison based on composite results for eleven areas of assessment, Russia is represented by Moscow. In both the 2008 and 2012 sub-national evaluations, however, Moscow ranked last among the cities examined (the surveys are not completely comparable as they cover partly different areas of assessment).

The new sub-national Doing Business in Russia 2012 focuses on four categories: "starting a business", "getting construction permits", "getting electricity" and "registering property". Figures on permitting processes, time required, and official costs & fees are based on national and local regulations, and on the experience of professionals (e.g. lawyers) who regularly deal with these processes.

The category rankings for most cities in the new survey vary considerably, but Moscow ranked low in all categories. St. Petersburg was 22nd in the overall standings. Cities in western parts of Russia who reached the top include Rostov-on-Don, Kazan and Kaluga. The ten cities surveyed in 2008 have improved processes for getting construction permits and registering property. Seven of those cities have also made progress in easing rules for starting a business.

Out of the 30 cities surveyed, St. Petersburg was the easiest city to establish a domestic firm with 10–50 workers. Cost of registering a firm was just €150–220. In terms of cost relative to national income per capita, Russia is today among the 30 cheapest countries in the world for starting a business. The fees for registering warehouses and lots were around €750 in nearly all 30 cities, and relative to the value of real estate, were among the lowest in the world (0.2 % compared e.g. to the EU average of nearly 5 %). In some other respects, Russia's best cities would also perform well in the global survey of 183 countries. St. Petersburg, however, ranked poorly among the 30 cities rated.

Construction permitting for warehouses and water connections scored well in St. Petersburg. The number of procedures involved in permitting varied widely. The shortest permitting process, around five months, was near the OECD average. Longer times were caused by e.g. the lack of city planning. Even Moscow had almost halved the time since 2008 when it still took nearly two years to get a permit. Permit fees ranged from €3,000 to over €30,000.

Getting electricity to a warehouse in a city was a challenge if compared to most of the 183 countries. Costs (including business services) ranged from €8,500 to €140,000.

Comparison of business climates in 30 Russian cities

	Range for all 30 cities	Moscow	St. Peters-burg	Ranking of the best city if included in 183-country survey
Starting a business *		***25***	***1***	
- number of procedures	7–12	9	7	86
- time, days	16–33	30	17	87
- cost **	1.7–3.0	2.1	2.1	21
Registering property *		***26***	***27***	
- number of procedures	3–5	5	5	12
- time, days	13–60	43	44	28
- cost ***	0.2–0.5	0.2	0.2	9
Construction permits *		***30***	***9***	
- number of procedures	16–47	47	18	103
- time, days	150–448	392	361	78
- cost **	40–418	172	51	46
Getting electricity *		***30***	***24***	
- number of procedures	6–10	10	9	121
- time, days	120–360	281	238	120
- cost **	112–1852	1852	1080	47

* Moscow and St. Petersburg rankings
** percentage of 2010 gross national income per capita ($9,910)
*** percentage of appraised value (warehouse structure and lot)

Source: Doing Business in Russia 2012, World Bank

Government commits to agricultural subsidies. The June 25 agenda at the cabinet presidium led by prime minister Dmitri Medvedev included this year's crop forecast. Attention was also devoted to pressures of change arising from the approaching WTO membership. An agreement between the government and oil companies has been in place for several years to assure farm producers of large discounts on fuel supplies. In 1H2012, the discount was 30 % of the domestic fuel price. The discount for the rest of this year should be resolved over the next few days. Domestic prices of key fertilizers are regulated, but with WTO membership, direct price-setting as well as the subsidies will probably be phased out. Russia's goal in coming months is to devise other subsidy approaches. Use of fertilizers is relatively minor in Russia. In 2010, farmers applied just 24 kilograms of fertilizer per hectare, a fraction of fertilizer use in other BRIC countries. The government also discussed measures to promote the use of farm insurance and a possible increase in the length of farm loans, up to 15 years.

Agriculture employs about 6 million Russians (about 9 % of the employed), but accounts for less than 4 % of GDP. Most grain crops are grown by private company farms, while half of vegetables (including potatoes) and milk production occurs on small household plots. Over the last ten years, companies have come to account for 60 % of meat and poultry production, but households still account for a large share. Russia exports substantial amounts of grain (mainly wheat), but in the case of other agricultural products, about 20–30 % of consumption is made up with imports. A core objective of Russian agricultural policy is to raise self-sufficiency in meat and milk consumption.

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China

Chinese firms increase investment in Europe. At the beginning of June, the Rhodium Group released a report on direct investment by Chinese firms in Europe. The report is a compilation of available information on green-field investment and acquisitions of Chinese firms that gave Chinese investors stakes of over 10 % in the European firm.

The report found that investments last year were on the order of $10 billion. Although this amount of investment was still relatively small, the rate of growth in Chinese investment is striking. The report notes that the stock of direct investment of Chinese firms in Europe is estimated to rise from about $21 billion at present to $250–500 billion by 2020. Chinese investment currently represents less than 0.1 % of the total FDI stock in EU countries, so China is in no way poised to displace up European or American firms as the top investor in Europe in the near future.

Contrary to the perception that Chinese firms focus on raw materials, strategic sectors or sectors that allow easy access to European markets, the numbers suggest a much more diverse approach. Investment of Chinese firms is largely motivated by traditional business concerns, particularly profit-seeking. About two-thirds of the completed 573 acquisitions or green-field projects examined involved privately held Chinese firms or non-state-owned listed firms. China's state-owned enterprises, however, accounted for two-thirds of the stock of investment as they tend to operate in capital-intense branches. In terms of investment, about a quarter of FDI went to green-field projects. However, the number of green-field projects covered about three-quarters of all projects. Although the gathering of data on FDI is known to be difficult, Rhodium's researchers believe their compilation covers the bulk of Chinese investments greater than $1 million in Europe.

In the case of Finland, the survey-makers noted a green-field project in the consumer goods sector and in total four major investments in the IT and life sciences sectors. The value of these investments totalled nearly $50 million.

The report treats the growth of investment of Chinese firms in Europe as a natural and healthy development, but it also raised concerns about potential negative consequences: (i) greater Chinese investment could expose Europe to macroeconomic volatility in the event of a significant economic disruption in China, (ii) Chinese firms could have a preference to reorganise operations and move high-value activities to China, (iii) Chinese companies may spread unorthodox business practices that might affect healthy competition, and (iv) there is potential for a race to the bottom in attracting Chinese investment that could negatively impact European welfare. It is not possible to rule out completely the possibility that China's government might try to use investment as a political tool, even if Chinese firms are more independent than most believe.

15th anniversary of Hong Kong handover to China. The former British colony of Hong Kong was returned to China on July 1, 1997 under the "one country, two systems" framework. The Hong Kong Special Administrative Region's constitution (Basic Law) includes a high degree of autonomy outside foreign policy and defence matters and preserves Hong Kong's status as a capitalist economy in a socialist country until 2047. In this respect, Hong Kong has flourished. The Special Administrative Region routinely tops Heritage Foundation and Fraser Institute surveys as the world's freest economy. Hong Kong also clearly surpasses China's other cities in most competitiveness evaluations.

The mainland and Hong Kong enjoy tight economic relations. Since 1985, mainland China has clearly been Hong Kong's biggest trading partner. Its share of foreign trade has risen from 10 % in 1978 to the current level of nearly 50 %. Hong Kong last year accounted for 60 % of FDI inflows to mainland China and it was mainland China's third largest trading partner. The lion's share of exports and imports, however, involves re-exporting activities. In January 2004, the introduction of the Closer Economic Partnership Arrangement (CEPA) reduced trade barriers and deepened economic integration of Hong Kong with the mainland. The CEPA has been expanded annually and currently applies to nearly all goods trade. After the latest enlargement round it also covers 47 service trade sectors. The ultimate goal is to eliminate all barriers to trade between Hong Kong and mainland China.

Although Hong Kong has struggled with a number of crises since the handover, it has benefitted immensely from mainland China's rapid economic growth. However, Hong Kong's GDP growth was just 0.4 % y-o-y in the first quarter of 2012, and for all of 2012 the entire year's growth is estimated to remain at just 2 %.

Concerns have been expressed in recent years on implementation of the special administrative region's constitutionally guaranteed rights to free speech and press freedom. For example, the Press Freedom Index published by Reporters Without Borders has gradually lowered Hong Kong's ranking over the past ten years from 18th to 54th. The rise in self-censorship is repeatedly stressed as a reason for the downgrades.

For Hong Kong to preserve its special status, it needs to offer something unique. Currently, Hong Kong's biggest advantages are its liberal business environment, independent judiciary, aggressive implementation of anti-corruption measures and greater civil rights. However, the goal of universal suffrage, which is specified in the Basic Law, has yet to be implemented.

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