

RUSSIA



Russia (Russia Federation) is situated in Northern Eurasia. It has borders with such countries as: Norway, Finland, Estonia, Latvia, Lithuania and Poland (both via Kaliningrad Oblast), Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, China, Mongolia, and North Korea. It also has maritime borders with Japan by the Sea of Okhotsk, and the US state of Alaska by the Bering Strait. Its territory measures 17,075,400 square kilometres (6,592,800 sq mi), Russia is the largest country in the world, covering more than one eighth of the Earth's inhabited land area. Russia is also the eighth most populous nation with 140,4 million people.

Russia's GDP in PPP is estimated 2,2 trillion dollars and this evaluate 4,0 % growth (\$15,837 per capita). Unemployment in the country reaches 7.6 %. Comparing unemployment rate with the main Russia's economical and political countries it is possible to say that it is less than in United States (9,6%), a bit higher than in Germany (6,8%), less

than in France (9,3%), but much higher than in China (4,3%). FDI Inflow in Russia is \$41.2 billion.

Russia's economy since the collapse of Soviet Union has changed a lot. It moved from a globally-isolated, centrally-planned economy to a more market-based and globally-integrated economy. Economic reforms in the 1990s privatized most industry, with notable exceptions in the energy and defense-related sectors. Besides this in 2009 Russia became the World's largest exporter of natural gas and the second largest exporter of oil, and the third largest exporter of steel and primary aluminum - and other less competitive heavy industries that remain dependent on the Russian domestic market. However during the year of 2008-2009 Russia's economy experienced a hard hit because of global economical crisis. The reason was that oil prices plummeted and the foreign credits that Russian banks and firms relied on dried up. Nevertheless at the beginning of 2010 Russia's economic started to grow again. The high oil prices buoyed Russia's economical growth in first quarter of 2011 and helped to decrease budget deficit which have been since 2008, but inflation (6,9%) might not help for economy to grow very fast.

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ABSTRACT

This paper makes an assessment of Russia's national competitiveness level and business environment in the country. These analyzes is based on two very important and influential key studies: Global Competitiveness Report of World Economic Forum and Doing Business of World Bank. The main purpose of this paper is to show how competitive are Russia's economy and what the environment is here in order to develop business.

The results showed that Russia still are ranked in a very low positions comparing to the other countries and regions. It is also observed that despite the fact that is big economy and big market it can not compete with EU-27 or USA because the indicators are too low. This paper analyzes why those indicators are low and also gives proper recommendations which could be implemented in Russia.

What is also very important that this dissertation shows how deep the correlation between competitiveness and business environment is because it takes into account main sectors which are important for the growth of economy.

CHAPTER I. INTRODUCTION

Why the competitiveness and business environment are so important to the country's economy? There is a question which could be explained by many different points of view. However this dissertation is based on two comparative studies: Global Competitiveness Index of the Global Economic Forum and World Bank's Ease of Doing Business Index. They are indexes which are correlated in many issues and help to study the competitiveness and economic growth. In this dissertation it is analyzed and explained main factors which are worth to develop and implement in order to raise the level of Russia's economy. For the better understanding what is the competitiveness and how close it is related with the business sector in a very first chapter it would be explained several theories of the competitiveness and its dependence on the level of business sophistication and expansion.

The most suitable theory what concerns business and competitiveness was chosen from the Michael E.Porter's researches. He explains that the competitiveness can be discussed through the studying business environment. His clear explanation of competitiveness as the result of well developed productivity and wealth of economy lets to give useful recommendations by using both indexes.

In the first part of the dissertation it is analyzed the Competitiveness of Russia. The competitiveness of Russia's economy is evaluated using the Global Competitiveness Index (GCI index) especially by analyzing the 12 pillars of GCI Index such as: Institutions; Infrastructure, Macroeconomic environment; Health and basic education; Higher education and training; Goods markets efficiency; Labor market efficiency; Financial market development; Technological readiness; Market size; Business sophistication; and Innovation. The results of Russia in 2011/2012 are compared with the other regions such as BS-10 and EU-27, also with countries such as USA and China. Each pillar is discussed and analyzed by the explanations of the reforms what were done or are need to be done.

Also in the second part of paper, to be more specific, it will be used Easy of Doing Business Index (EBI) which is composed of 10 pillars such as: Starting a business; Dealing with construction permits; Getting electricity; Registering property; Getting credit; Protecting investors; Paying taxes; Trading across borders; Enforcing contracts; and Resolving insolvency. In this chapter Russia's results are also compared with the EU-27, BS-10, USA, China and CIS. There are also introduced policy recommendations after each section.

In the last chapter there are proposed policy recommendations which would be beneficial for the further development of Russia's economy and its competitiveness.

CHAPTER II. COMPETITIVENESS PERCEPTION

The U.S. Presidents commission on competitiveness defines competitiveness as „the ability to sell goods and services under free and fair market conditions while maintaining and increasing living standards over the long run“(Lipsey, 1991, p.188). The huge advantage of competitiveness is that at least this measurement of economy involves two countries what basically means two economies and their standards. What is more, there is no integral link between a positive balance on current account and any particular growth rate of gross domestic product (GDP). The economics of competitiveness has been defined as the economics which “continuous, very long run progressive change in product and production process: new technologies and new production structures in a policy framework that encourages restructuring” (Best, 1990, p. 251).

To be more specific it is possible to measure competitiveness in the macro and microeconomics environment. Macroeconomic competitiveness is shown in a country’s institutions, technological development, and macroeconomic policies; microeconomic competitiveness is gauged by the sophistication of a country’s business and the quality of the business environment (WEF).

According to Council of Economic Advisors Chairman Laura D’Andrea Tyson, competitiveness is „our ability to produce goods and services that meet the test of international competition while our citizens enjoy a standard of living that is both rising and sustainable” (Paul Krugman, Foreign Affairs, 1994).

As it is seen from the definitions in XX and XXI century competitiveness is related with developing resources and is considered to be social wealth. Some of the economics’ scientists who are supporters of the economics’ developing process claim that entrepreneurs are one of the most important indicators in the analyses of competitiveness. Such researchers as Garelli (2006), Shumpeter (1942), and Drucker (1969); Aiginger (2006) were talking about how important is the developing of new technologies and industry in order to have strong competition of nation. Those who are talking about competitiveness as about social wealth indicator are mainly maintaining the idea that in

order to have strong competitiveness of a country firstly it is important to create a quality of living standards, high level of education, strong social security and personal freedom. In this block we could put such scientists as Fagerberg (1988); Landau (1992); Oughton, Whittam (1997). In addition Scott and Lodge (1985) claim that the competitiveness of a country depends on an ability to produce and sell products in international markets and by this rises the level of living standards. The most critical to competitiveness definition is the economist Paul Krugman. Due to his theory, this concept is not easy understandable in the context of a country. Due to him, the competitiveness became very wide spread conception because of three deeper reasons. First one is that competitiveness's image are very exciting, second thing is that competition somehow makes economical difficulties in international context to be solved easier and the third one is that "many of the world's leaders have found the competitive metaphor extremely useful as a political device" (Paul Krugman, Foreign Affairs, 1994).

Scientist also argues that country is not a corporation and all minds that support this idea are just wrong: "tell a group of businessmen that a country is like a corporation writ large, and you give them the comfort of feeling that they already understand the basics. Try to tell them about economic concepts like comparative advantage, and you are asking them to learn something new. It should not be surprising if many prefer a doctrine that offers the gain of apparent sophistication without the pain of hard thinking" (Paul Krugman, Foreign Affairs, 1994). Basically he says that in order to have the strong competitiveness of a country it is not enough to know how to deal with the company or corporation, it must be much higher level of knowledge in global economy's processes.

One of the most important economic competitiveness researchers Michael Porter clearly exposed the issue of national competitiveness. According to him, the translation between the competitiveness of economy and firm is not so simple: "drawing analogies between the competitiveness of firms and the competitiveness of nations involves a fallacy of composition that causes tremendous confusion" (B.Snowdon, G.Stonehouse, 2006, p.164). M.Porter claims that in order to understand competitiveness of nations it is very important to adopt a "bottom-up" or microeconomic approach. To explain how firms compete (due to him it is used to the both: national and international companies) he used "Cluster" and "Diamond" concepts. The "Diamond" concept M.Porter indicates as the determinants of national competitive advantage of industries, or its segments, and also involves the

influence of: demand conditions; firm strategy, structure and rivalry; factor condition; the presence of related and supporting industries. “Cluster” author describes as “geographically concentrated group of interconnected firms and associated institutions in a similar field” (B.Snowdon, G.Stonehouse, 2006, p.173). More traditional view, according to M.Porter, is by looking through business environment prism. This approach accents such factors as institutional development, trade liberalization, privatization, macroeconomic stabilization. Due to these comparisons it is possible to talk not only about firms’ competitiveness, but also it turns to the fact that it is worth to use the same theory and adapt to the nations, cities, regions, countries. Due to M.Porter, when we are talking about we are talking about competition across regions and situations there we need to have in mind that all countries competes with each other, but in indirect way, because low economical level countries can not compete with the super powers: “nations compete in providing a platform for operating at high levels of productivity and therefore attracting and retaining an ample investment in those activities that support high returns to capital and high wages” (B.Snowdon, G.Stonehouse, 2006, p.165). Generalizing this idea about the nations’ competitiveness it is obvious that the author is talking about the balance which is hold in economics due to the concept of competitiveness. According to the expert, in case of the region or a country, while we are talking about competitiveness, the most important thing is to analyze productivity which is measured by the value, but not productivity in the tight sense of volume. Due to the experts it could happen that the country would have extremely stable macro economy, also well-functioning democratic political system, but it will not necessary bring prosperity and the welfare. In this case to establish high level of competitiveness it is essentially important to create wealth system in microeconomics. This is why the competitiveness level is considered by analyzing so many cases and many points. According to M.Porter, only the firms can create wealth and can produce effectually and sell products at price which higher than the cost of the production. His notice is that neither governments, neither NGOs nor universities are able to create prosperity and competitiveness environment. Only the firms and business environment are influencing competition process. This is why M.Porter is using “diamond” theory to explain the competitiveness, because it includes not only the strategy of the firms but also structures and the factor conditions which basically means business environment.

The economic specialist believes that economic development is a sequential process and that economical development of a country is dependent on country's growth: "at low levels of around \$1000 GDP per capita, the constraints on productivity often evolve around problems with infrastructure. When you count GDP per capita you need institutional and incentive structure to create original best-in-the-world innovations" (B.Snowdon, G.Stonehouse, 2006, p.166). And this is the fact which shows how the competitiveness and economy depends on new innovations and finally economy becomes innovation-driven economy, which basically means that country's competitiveness position mutually related with the size and structure of economy. But on the other hand M.Porter agrees that big economy is not necessary high quality economy. By saying this he explains that even the small country can integrate herself into global economy: for example – Singapore (and actually this is the top country in the whole world).

The large countries are successful of one very important reason which is related with the devolution of the initiative and authority. Due to this structural administration the country is able to have many sectors which are responsible for different economy' levels and this is why country itself regulates different things more strategically (later we will talk about the Russia's case, which is opposite to this example, but on the other hand USA is the perfect example. It also depends of the role of government).

Furthermore, besides the size and structure of the country we have another one strong measurement of competitiveness – productivity of economy. It consists not only of the value of goods and services, produced by human capital but also the standard of living is very important while we are talking about competition and productivity. This takes into account high wages, attractive returns to capital and of course strong currency.

Another one valuation related to competitiveness is called prosperity, which could be inherited or created. In other words we could say that the competitiveness is measured by the wealth which is natural such as nature resources: minerals, oil, land, location, gas resources, river connections, sea shore length and so on. Meanwhile created prosperity is considered to be products and services, business enterprises and innovations; it arises from ability to make products and services that can be produced effectively and sold inside of a country and in the international level and to make profit of it. The main differences between those two prosperities are: inherited prosperity is derived from selling or

exploiting inherited natural resources, while in created prosperity there are sold created products; inherited resources are limited while created prosperity is created by firms; in inherited prosperity case the main actor is government, while in created prosperity case we have firms, which make their central role in economy.

The economy is enabled to compete and the competitiveness is strong when such indicators as: domestic investment, exports, imports, inbound foreign direct investments (FDI) outbound foreign direct investments and domestic innovations are in the high level. “Exports allow a country to grow its most productive activities beyond the demand in the local market. Imports allow country to access to foreign goods that it cannot produce productively, provide access to foreign technology embedded in capital goods, and increase the level of rivalry on domestic markets. Domestic investment is critical to improving the productivity of companies and infrastructure. Inward FDI brings added capital as well as technology, skills, management, market access, and competitive pressure. Outward FDI fuels the international growth of local companies while tapping external capabilities. Innovative output fuels productivity growth” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p. 8).

It also considered that competitiveness comes from the interface of three wide ranks of influence: endowments, context and microeconomic competitiveness which has indicators such as: the sophistication of company operations and strategy, the quality of the microeconomic business environment and state of cluster development.

Endowment is related with the inherited prosperity and this is why it includes many of natural resources, historical legacy, and geographic location. This is why they are also called essentially “given” what means that their influence on prosperity “can be heavily influenced by countries’ underlying competitiveness and whether the country pursues policies that realize their potential” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.9). But, natural resources can slow down competitiveness’s perfection, for example such an emerging economy as Russia.

Another factor is location which also has influence to the country’s competitiveness. Location is described as one of the wealth factors which can have impact to country’s economy and competitiveness, because neighbor countries are the most natural trade and investment partners.

“The historical legacy of a country is embedded in the structure of companies, government agencies, and beliefs about competitiveness” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.9).

As it was mentioned before, macroeconomic, political, legal and social **context** is also very important factor of nation’s general competitiveness. This context creates environment where policies and institutions can operate, where companies, citizens, and government are able to establish wealth of a country. However macroeconomic level here plays the most important role. Macroeconomic competitiveness is possesses three areas: quality of the business environment, the state of cluster development, and the sophistication of company operations. The business environment is mostly related with the indicators such as special rules, incentives, supporting entities, which has influence to the productivity and innovativeness of company competition. The states of cluster development involve relations between co-located firms, supporting industries and also associated institutions in certain area. Meanwhile the sophistication of company operations takes into account mainly such things as capabilities, operating practices, and management choices within companies themselves.

In the subsequent chapters it will be analyzed competitiveness and doing business possibilities and results in Russia, which is very interesting example, because as M.Porter says the country of big economy can compete and produce goods in a very flexible circumstances, but in Russia’s case it will be seen quite different results as it is expected from big countries.

CHAPTER III. The competitiveness of Russia's economy

In previous paragraphs it was talked about the competitiveness as a key study, theoretical path, it was also represented the general economy level in Russia in 2011-2012. But as it was mentioned in introduction one of the main target's in this thesis is to evaluate Russia's competitiveness according to Global Competitiveness Index (GCI) of 2011-2012. According to WEF GCI is exhaustive implement to measure microeconomic and macroeconomic basement of country's competitiveness.

In addition it is also important to mention that the productivity level govern the speed of "return obtained by investments in an economy, which in turn are fundamental drivers of its growth rates"(WEF). This means that the more competitive country (economy) is, faster it (economy) grows.

There are 12 very important pillars who determine competitiveness. These factors help to analyze the level of competitiveness in a country and also how fast the economy is growing. 12 pillars of GCI index should be taken into considerations, which are classified in 3 major categories: Basic requirements (institutions, infrastructure, macroeconomic stability, health and primary education), Efficiency enhancers (higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size), Innovation and sophistication factors (business sophistication, innovation).

Russian Federation in 2011-2012 is ranked in 66th place out of 142 countries with the score of 4.21. This is determined by several facts and lack of improvement of macroeconomics' stability which of growth is very mean. Such an important pillars as innovation, business sophistication, efficiency, labor market, institutions are considered to be in quite low level of importance.

"For the estimation of the overall GCI score of each economy, initially, countries are classified according to their economic development by their GDP per capita. According to the stage of economic development of each country, the score in every pillar is adjusted using various factors" (H.Papanagos, 2012).

Each country gets a score in each pillar, in a scale of from 1.00 (minimum) to 7.00 (maximum). The 1.00 indicates the worst performance, while 7.00 indicates the best performance. An economy with an overall GCI score close to 7.00 means high competitiveness, while a score close to 1.00 means low competitiveness.

Comparing with the year of 2002/2003 GCI of Russia dropped down by two positions. In 2002/2003 Russia Federation was ranked in 64th position out of 80 countries while in 2011-2012 was ranked in 66th place out of 142 countries. Here it is very important to notice that the number of ranked countries from 2002 till 2012 also changed almost double: from 80 to 142. During this period (10 years) Russia's position was also changing according to the amount of countries who participated in GCI statistics. For example, in 2003/2004 Russia was ranked in 70th place while in 2008/2009 it was placed in 51st position. It is notable that the score of GCI in Russia also changed from 3.64 (in 2002/2003) to 4.21 (in 2011/2012).

It is very important to analyze the year of 2008/2009 when Russia was ranked in the highest place comparing with all 10 years period. When in 2008/2009 all the world was encompassed in economical crisis Russia managed it quite well. The reason was high prices of oil and gas. As it is known Russia has huge amounts and reserves of this. It let Russia's government manipulate with them in order to improve economics in the country: "With improving oil prices, the situation has improved for the budget, and the CBR reserves have moved up to \$400 billion from a low \$300 billion last December"(P.Desai, 2010).

Comparing Russia's ranking with the other Black Sea countries (BS-10) we could say that was one of the best until 2009/2010 when the Azerbaijan and Turkey economy started to grow much faster.

In 2011/2012 in between all Black Sea countries Russia is ranked in the 3rd position. In comparison with the BS-10 score average which is 4.1 Russia has almost the same score which is 4.21. On the other hand, Russia's score is lower than China (4.7), EU-27 (4.7) and USA (5.5). These results have many reasons. One of them could be that Russia's economy, due to IEF (Index of economic freedom), is classified as almost unfree economy with the 50.5 score, ranked 144th place among the 184 countries. This shows that country has very limited freedom for business and economic development. These disadvantages of

Russia's economy will be examined by 12 pillars of GCI, which basically describe all the pluses and minuses, advantages and disadvantages of the economy.

1. Institutions

The institutional environment is determined by the legal and administrative framework within individuals, firms, and governments interact to generate wealth. The importance of a sound and fair institutional environment became even more apparent during the economic crisis and especially important for solidifying the fragile recovery given the increasing role played by the state at the international level and for the economies of many countries (WEF).

The competitiveness and growth of a country is strongly related with quality of institutions. It has an influence to the decisions about investment and the organization of production and also is considered to be the most important issue when we are talking about societies which distribute the benefits and sustain the costs of development strategies and policies. One of the examples could be "owners of land, corporate shares, or intellectual property are unwilling to invest in the improvement and upkeep of their property if their rights as owners are not protected" (WEF, 4).

Such cases as the Government bearing toward markets and effectiveness of market operations and freedom play also very important role. Especially the economy is slowed down when the country's bureaucracy, overregulation, corruption, dishonesty with dealing in public contracts, lack of transparency and trustworthiness, and political dependence of the judicial system affects business which is disable to develop economy.

To ensure trust in the national business environment it is also considered to be as one of the implementations which could help to manage the public finances properly. "Indicators capturing the quality of government management of public finances are therefore included here to complement the measures of macroeconomic stability" (WEF, 4).

Talking about institutions it is very important to mention that not only public institutions are important to the economy growth and competitiveness, but also it is related how fairly are ruled private institutions. More private sectors are transparent to business, higher level the economy is able to reach.

Comparing with other countries Black Sea countries in 2012 Russia's score of Institutions is 3.6, which is the same as Armenia's (3.6), higher than in Greece (3.5), Bulgaria (3.3), Moldova (3.4), Romania (3.5), Ukraine (3.0), but lower than in Azerbaijan (3.8), Georgia (4.0), Turkey (3.7). In comparison with the BS-10 (3.54), Russia's score is a bit higher. On the other hand, it is visible that USA (4.6), EU-27 (4.6) and China (4.3) have much higher score than Russia.

GCI also can be analysed by the very detailed scheme because pillar of innovations is consisted of 21 details. In 2011/2012 in Russia the results of Innovations pillar are these: Property rights (score 2.8), Intellectual property protection (score 2.5), Diversion of public funds (score 2.4), Public trust of politicians (score 2.7), Irregular payments and bribes (3.1), Judicial independence (2.6), Favoritism in decisions of government officials (score 2.5), Wastefulness of government spending (score 2.8), Burden of government regulation (score 2.4), Efficiency of legal framework in setting disputes (score 2.8), Efficiency of legal framework in challenging regs. (score 2.7), Transparency of government policymaking (score 3.7), Business costs of terrorism (score 4.7), Business costs of crime and violence (score 4.2), Organized crime (score 4.0), Reliability of police services (score 2.6), Ethical behaviour of firms (score 3.2), Strength of auditing and reporting standards (score 3.8), Efficacy of corporate boards (score 4.0), Protection of minority shareholders' interests (score 3.1), Strength of investor protection, 0-10 (best) (score 5.0).

The scores show that the weaker part of Russia's economy in 2011/2012 is such factors as: property rights, intellectual property, diversion of public funds, public trust of politicians, judicial independence, favouritism in a decisions, burden of government regulation, efficiency of legal framework in setting disputes, efficiency of legal framework in challenging regs., and reliability of police services. As it is visible these scores in the scale of 7 are quite low. The main problems what concerns institutions in Russia are that people do not trust them, that the property rights are not safe. This very low score of Russia's Property rights could be explained by the International property rights index (IPRI) in

2012. Due to Judicial independence Russia is ranked in the 29 position out of 130 countries, what is more in Rule of Law pillar Russia is only in 73rd place out of 130 countries. In addition in the pillar of political stability Russia is ranked in 71st place, in Physical property rights Russia takes the 107th place (International Property Right index 2012). Due to this data we can say that in Russia there is not well developed dependable rule of law which effectively means, that there are no stable laws which could protect the property. Especially the pillar of Judicial independence shows that there is no security for property rights. According to this Russia should pay more attention to the property safeness and regulations of law because the protection of private law is very weak. The Judicial system is unpredictable, corrupt and unable to handle technically sophisticated cases. Contracts are not ease to enforce, and ancient antipathy to them continues to impede Russia's integration into the West. This violations and corruption should be solved as soon as possible because the results of Russia according to other countries do not show anything promising. It should be abolished all possibilities for corruption or independence of law.

As it is known, Institutions are very close related with the government of the country, and as it was said both private and public sectors are playing the role in here. What makes Russia's score of Institutions so low is the strong regulation of government which usually does not collaborate with the private sector. According to Russia's Country Report 2012 :“in practice there are considerable restrictions on rights to organize and communicate politically. Smaller liberal as well as right-wing opposition parties have systematically been discriminated against by the state administration and the media. NGOs critical of the national or regional government have also repeatedly been subject to harassment by state agencies” (Bertelsmann Stiftung's Transformation index (BTI), p.7). Even though in 2010 President Dmitri Medvedev did not sign a new law with the stronger restrictions to the assembly rights for people, influence of oligarchs and lobbies were reduced by President Putin, still there are huge corruption and non-state actors' influence to the politicians, which means that people do not trust the authority. As it was mentioned before, huge influence to the institutions in Russia has corruption. According to Index of Economic freedom, Corruption pillar defines the corruption level in the country's economy, how insecure it is due to this problem. The higher the level of corruption is, the lower the level of overall economic freedom is, and a lower is a country's score. Corruption is defined as

dishonesty and decay. It can be also defined especially in governance case as the failure of integrity in the system (IEF). So, in Russia's case we have the score of 21 (out of 100) which basically means, that the level of corruption is very high. According to Corruption Perceptions Index 2011 of Transparency International Russia is ranked in 143rd position out of 183 countries with the score of 2.4. It is obvious that Russia is one of the most corrupted countries. The main problem in Russia is that neither the President Medvedev's Council for the fight against corruption, which was established in 2008, nor the anti-corruption legislation of December 2008 has been effective in reducing corruption (Index of Economic Freedom 2011). There still are many economic crimes which are not seen and controlled by Government. The rule of law also is corrupted and not stable so this is the problem why the country itself has huge score of corruption. The only one thing that Russia's Government could do to solve this problem is to make sure that Rule of Law is well developing and that there are correct legislation and judicial system which protects economy also the property rights, business freedom and financial freedom, because these pillars are also very much related with the corruption.

All in all, we could say that institutions are very important GCI pillar to the competitiveness of a country. So, in order to make Russia more competitive in a global economy the government should cooperate with the private entrepreneurs and make sure that the public institutions are not corrupted and warrant the clear rules of law.

2. Infrastructure

Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular instance (WEF, p.5). Well developed and high quality infrastructure lessens the distance between different countries, regions and cities inside the country. It also gives opportunity for the market to be more effective and reduces the costs to the business for spending on goods' transfer. It is also important for the growth of economy, because more the infrastructure is extensive or qualified; more it reduces income inequalities and poverty. This means that transportation

and communication becomes much easier because of infrastructure networks and helps to access different and distant regions, economic activities and services.

“Effective modes of transport, including quality roads, railroads, ports, and air transport, enable entrepreneurs to get their goods and services to market in a secure and timely manner and facilitate the movement of workers to the most suitable jobs (WEF, p. 5). Infrastructure also includes such a factor as electricity supplies which are free without any disturbances so that the business and institutions or factories can normally work. The last but not the least indicator which allows the country to be competitive while we are talking about infrastructure is telecommunication network, which allows free and fast flow of information.

In 2011/2012 Russia with the score 4.52 of Infrastructure is ranked in 48th place (out of 142), while other BS-10 countries have much lower rank except Greece which is placed in 45th position with the score of 4.5. For example Armenia is in 77th place (score 3.8), Azerbaijan in 73rd (score 3.9), Bulgaria in 87th (score 3.6), Georgia in 68th (score 4.0), Moldova in 96th (score 3.3), Romania in 95th (score 3.4), Turkey in 51st (score 4.4), Ukraine in 71st (score 3.9). Comparing Russia's and USA scores it is visible that USA score of 5.7 is ranked in 16th position. Why it is such a difference between so big countries as Russia and USA is possible to explain due to indicators which determine Infrastructure pillar. According to the 2011/2012 data such indicators as Quality of overall infrastructure and quality of roads are ranked in a very high position in USA, while in Russia these data has quite low scores. What is more, USA is ranked as the first country which is available to have flights for the highest quantity of people and it has the most frequent flights, while Russia, the biggest country in the world is ranked only in 13th position. It is very important to pay attention how different is infrastructure in those two countries when we are comparing communication possibilities. Due to Fixed telephone lines Russia is ranked in 38th place, while USA in 14th. Comparing the size of the countries is obvious that Russia stays behind far away from USA. On the other hand comparing the amount of people who have mobile telephone subscription, it is visible that in Russia's people use mobile equipment much more (166.3/100pop.) than USA people (89.9/100pop.). This also shows the ranking, because Russia takes 7th position out of 142 countries and USA only 87th.

In comparison with EU-27 which has a score of 4.9 and has the 30th position Russia also is in a lower ranking position. This is influenced by the fact that such advanced countries as Germany, Sweden, Finland, Netherlands, United Kingdom, which are developing their infrastructure very fast. For example Sweden has very high quality of port infrastructure (ranked in 11th place), also quality of air transport infrastructure (11th). Talking about the Germany we obviously could see that it have reached very high quality of railroad infrastructure (5th position) and available airline seat kms/week, where the amount of people is counted 4.641.0, with that result this country also ranked in 5th place. Netherlands has such a strong and well qualified port infrastructure that there almost is any competitor; because it is ranked in the 2nd place with the score of 6.6 and what is more quality of air transport infrastructure also is put in the 5th place. This short glance at mentioned progressive countries shows where Russia needs to pay attention while trying to make her infrastructure stronger. As it was mentioned before, huge impact to the competitiveness has the geographical situation. So looking from Russia's perspective we could claim that there are very little opportunities to risen the quality of the port infrastructure, because country does not have good entrance to the popular seas or the oceans, but problem with railroads and roads should be solved, because on this is based huge part of micro and macro- economy, also the possibility to extend international business.

In comparison with the China we can say that the situation is almost the same, because China has the score of 4.6 and is ranked in 44th place. The overall infrastructure in here is better than in Russia, because China has the score of 4.2. and also railroads and air transport are developed much better. But the communication devices are better in Russia.

According to Russian Railways President Vladimir Yakunin : „While the United States and many European countries invest close to six percent of their GDP in infrastructure, Russia invests just around 2.5 percent” (T.Adelaja, Rianovosti, 2012). According to him, Russia, like most former Soviet states, still has infrastructure facilities from the Soviet Union, but such things as difficult climate, inadequate state investment and high level of corruption have pushed most into a state of incorrigible infrastructure. What is more, Russia trails all developed countries in the sheer scale of infrastructure investment, and also has the second lowest score among 14 countries for the uneven distribution of its physical infrastructure, according to KPMG's Competitive Alternatives 2012 report

released in May (Tai Adelaja, Rianovosti). Russia's minister of transport Maxim Sokolov claims that over the past ten years, the federal government has spent 1.9 trillion rubles (\$57 billion), or about 45 percent of its federal target program funds, to improve the state of the country's infrastructure, but he agrees that the government needs to find another sources to reinforce the infrastructure of Russia, because the budget is too weak to impose so much money only for infrastructure. According to Ministry of Transport, Russia still loses about 7%- 9% of GDP because of the roads which very bad condition "commercial goods can only travel an average of 180 miles per day in Russia, compared to 900 miles in Europe" (Tai Adelaja, Rianovosti, 2012). As the specialists and entrepreneurs say there are no problem that foreign investors could invest the money in Russia's infrastructure in order to keep closer economical relationship, but the problem is corruption and the institutions which are governed by one supreme power. It means that the state administers everything, keeps even the private capital in their control, and this is one of the main reasons why infrastructure in Russia is progressing so slowly.

All in all the recommendation for Russia would be to pay more attention to foreign investors and try to lessen corruption, which now is one of the biggest problem in Russia. Such a big country which has huge reserves of oil and gas should pay more attention to infrastructure, and especially in train and traffic roads, because they are very important for developing competitiveness.

3. Macroeconomic environment

The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country. Although it is certain true that macroeconomic stability alone cannot increase the productivity of a nation, it is also recognized that macroeconomic disarray harms the economy (WEF, p.5)

It is very important to certain that the government would provide services efficiently and would recover from the past debts. "Running fiscal deficits limits the government's future ability to react to business cycles" (WEF, p.5). It is the problem that companies and firms can not work effectively when the inflation rates are not controlled. Only when the macro

environment is stable economy can grow and be competitive. What is more it is very important to make sure that this pillar assesses the stability of the microeconomic frame, so it does not analyze the fact how public accounts are managed by the state power – government.

The stable macroeconomic becomes very important indicator of competitiveness when it is developed in the legal social and political context. Macroeconomic is kind of array of different institutions, firms, companies and of the policies. Welfare of the country is made in the macroeconomic level, so it creates the possibility for the firms and entrepreneurs compete and sell valuable goods. According to M.Porter only the firms can create wealth, institutions and government can not do this. Microeconomic is contained of three areas: “the quality of the business environment, the state of cluster development, and the sophistication of company operations. The business environment includes the myriad of inputs, rules, incentives, and supporting entities that directly influence productivity and innovativeness of company competition” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.11).

What is more microeconomic competitiveness also depends on many conditions and interactions such as companies, government entities and many other institutions. “Microeconomic progress arises in hundreds and even thousands of discrete areas, from the types of workers trained, to specific regulations, to infrastructure, to the presence of supporting companies” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.11). Macroeconomic wealth can not be reached in a very quick way it takes time and the most important thing: cooperation of business and numerous parts of society and of course government institutions.

Comparing with the other Black Sea countries, Russia has one of the highest score of Microeconomic environment pillar. It has a score of 5.2 and is ranked in 44th position. There are some components which allows evaluate Macroeconomic environment more precise. Government budget balance is -3.6 % of GDP, Gross national savings is 24.7% of GDP, Annual change of inflation is 6.9%, interest rate spread 4.8% of GDP, General government debt is only 9.9%of GDP so that is why by this indicator Russia is ranked in 7th place out of 142. And the last component is country credit ranking, which in Russia is evaluated 65.2 out of 100.

As it was mentioned before the total score of Russia's microeconomic environment is one of the highest in between Black sea countries: Armenia's score is 4.2, Azerbaijan 5.9, Greece 3.3, Bulgaria 5.1, Georgia 3.7, Moldova 4.3, Romania 4.5, Turkey 4.8, Ukraine 4.2. The average BS-10 is 4.52. What is even more important that USA with the score of 4.5 is ranked in the lower 90th position and also EU-27 has the score of 4.8. Only China has higher score of 6.2 and it is ranked in 10th position.

As it is visible, the score of macroeconomic environment is one of the highest of GCI scores in Russia. The reason could be very strong government rule, and that country's incomes are higher than expenditures, what makes economical stability. What is more, most recent years government expenditures, including consumption and transfer payments, increased slightly to 34.1 percent of GDP. The state maintains strong and powerful because of the energy: oil and gas, market and mining. Public dept still remains 11 percent of GDP. Another one reason why Russia has quite good performance in this pillar is because of the high score of Fiscal Freedom (Index of Economic Freedom). The reason that Russia has high score of Fiscal Freedom is because of the low taxes in the country. The individual income tax rate is a flat 13 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and an environmental tax, with the overall tax burden amounting to 34.4 percent of total domestic income. Government spending has increased to a level equivalent to 41 percent of GDP, turning the budget balance to deficit. Public debt has hovered at around 11 percent of total domestic output (Index of Economic Freedom 2011). "Over the last decade Russia has adhered to a consistent austerity policy that regularly led to budget surpluses. This allowed for a significant reduction of foreign debt (from over a third of GDP in 2000 to a mere 2% of GDP since 2008)" (BTI 2012, p.15).

It is very important to mention that stability in Russia's economy stays because of the monetary policy which is integrated into general economic policy concept. Stability fund was also started in order to protect budget's windfall benefit from high oil and gas prices in the future. For example: "The saving of windfall profits during Putin's presidency in autumn 2008 offered the Russian government the chance to react to the international financial economic crisis with extensive liquidity support and stabilization programs" (BTI 2012, p.15).

Quite good performance in this pillar Russia shows and because of very quick and independent recovery from the economic crisis. Especially in 2011 Russia's economy strengthened very much. At the end of 2011 Russia's output came back to pre-crisis level and although fixed investment was stepped back. It is visible while the other countries were suffering from the weak global recovery from crisis, Russia's growth remained resilient: "while growth moderated from 2010 to 2011 in high-income OECD countries and emerging economies outside the EU, growth in 2011 reached 4.3 percent in Russia, unchanged from 2010" (Russian Economic report, 2012, p.4). This was one of the reasons why Russia reached the pre-crisis level. Also as the result of this, the growth (2011) was better for about 0.3% of GDP than it was expected. To return macroeconomic stability also helped restocking which became one of the most important economy's growth indicators. Consumption became the second one very important issue while we are talking about the growth of economy: "In 2011, looking at growth trends over the quarters shows that consumption instead of inventories became the largest growth contributor in the second and third quarters" (Russian Economic report, 2012, p.5). The growth carried over into beginning of 2012 when Rosstat's business confidence rose from -6% in December of 2011, to -2% in 2012 in February. "Rising oil prices and improving global market also lifted Russias's stock market.

What is more, in 2011/2012 Russia's headline inflation declined sharply to its lowest level of the last twenty years. According to Consumer price index (CPI) data, inflation dropped down from 9.7% in April in 2011 to 3.8% in February of 2012: "Low food inflation helped to reduce headline inflation, as Russia's agriculture went from a bad to a good harvest, services inflation declined, petrol stations delayed increases in gasoline prices in response to higher international oil prices. "As the result, from December to January, prices increased only 0.4 percent this year compared to 2.4 percent last year"(Russian Economic report, 2012, p.18). Also core inflation (excluding fruits, vegetables, fuel, administrated service prices) went from 8.4% in July 2011 to 5.7% in February 2012, "this indicates that monetary and exchange rate factors also played a role in bringing down inflation"(Russian Economic report, 2012, p.18).

In order to improve macroeconomic stability it could be offered to Russia to pay attention to economic growth, even though it recovered after crises quite fast. But it is known that the economy grew before the crises for about 7% while now it is slowed to 4%, although

the prices of oil are still high. Also Russia should pay more attention to new policies which are related with the country's budget and spending, because still "output gap is closing and the external environment remains uncertain" (Russian Economic report, 2012, p.29). Today Russia's government also should pay attention to the fact, that it is necessary to improve productivity and diversity.

Considering the fact that the oil prices are still high, fiscal policy should be used to renew fiscal buffers, "this would make sure that fiscal policy does not become procyclical, as the output gap closes" (Russian Economic report, 2012, p.29). Also it would lessen vulnerability of the society money to the volatility in oil prices as the Reserve Fund remains far below the pre-crisis level (Russian Economic report, 2012, p.29). This movement would save the oil revenues in the budget. It would also be worth to change country policy from the overall fiscal balance to non-oil fiscal balance. "In order to de-link the budget from oil price volatility and ensure intergenerational equity, Russia could adopt an oil-price rule, along with aggregate borrowing ceiling" (Russian Economic report, 2012, p.29).

One more recommendation for Russia's macroeconomic stability could be related with the better focusing of monetary policy on low inflation at the same time making stronger financial sector what means that it would make Russia's inner economy stronger and the country would be able to concentrate on economy flexibility because it would not be so dependent on the oil price. More over improving banking system, what means less corruption, would make the economy more stable, so the markets would be sustained stronger and more content.

4. Health and primary education

A healthy workforce is vital to a country's competitiveness and productivity. Workers who are ill cannot function to their potential and will be less productive (WEF, 2012, p.5).

If the percentage of unhealthy people is too high it immediately brings impact and significant costs to the business. Sick employees are often absent in their work places or do not accomplish their job fully what means much lower levels of efficiency for whole

company. Country needs to ensure and invest into citizens' welfare so that to have strong, competitive and clear economy.

What is more, "health pillar takes into account the quantity and quality of the basic education received by the population, which is increasingly important in today's economy" (WEF, 2012, p.5). Basic education is important for each worker because it increase effectiveness of the individual. It is known that if the person has only very little and formal education, it will be much difficult to him to adapt to a new technologies and job process. Lack of primary and basic education can restrain the economical development and of course business's perfection.

Talking about Russia's performance in this pillar it is seen quite good results. Because in 2011/2012 the score of the Health and Primary education was 5.7 and Russia was ranked in 68th position. Other Black sea region's countries also are performing in this pillar quite satisfactorily: Armenia with the score of 5.4 is ranked in 94th place, Azerbaijan (score 5.1) in 105th place, Greece (score 6.1) in 37th place, Bulgaria (score 5.8) in 57th place, Georgia (score 5.7) in 67th place, Moldova (score 5.5) in 86th place, Romania (score 5.7) in 66th place, Turkey (score 5.6) in 75th place, Ukraine (score 5.6) in 74th place. This data shows that in Black sea region the primary education and the health of population are quite well developed and important to the authority of the countries'. Comparing with the average of BS-10, which has the score of 5.62; it is obvious that Russia's results are higher.

In comparison with EU-27 which in 2011/2012 has the score of 6.21 Russia is ranked in a lower position. USA with the score of 6.1 and China with the score of 6.2 has also better conditions for the health and primary education.

Health and primary education pillar consists of few indicators. They are very important in order to explain the situation in the country. Due to such indicators as Business impact of malaria and Malaria cases/100.000 pop. Russia is ranked in the first place. Due to the WEF data it is confirmed that according to business impact to tuberculosis Russia has the score of 5.5 and is ranked in 65th place. It was also claimed that during the year of 2011/2012 it was around 106 tuberculosis cases per 100 000 persons. Business impact of HIV/AIDS has also quite high score of 5.3. Due to the World Health Organization "according to new data in the 2009 *AIDS epidemic update*, new HIV infections have been reduced by 17% over the past eight years since 2001" (WHO, 2009). These changes also

are seen in Black Sea regions. The highest HIV prevalence is seen in Ukraine, because it is ranked 110th place and the lowest pervasion is in Turkey, which is ranked in the 1st place by users, what basically means, that there are the minimal amount of people who are sick with HIV. Talking about USA and China there is huge difference, because in Russia there are about 1% of adults who has a virus, while in USA 0.6%, so that this country is ranked in 93rd place by prevalence, at the same time China had pervasion of about 0.1% and is ranked in 21st place, out of 142 countries. Most of the BS-10 countries: Romania, Bulgaria, Greece, Georgia, Armenia and Azerbaijan are also ranked in 21st place. “Around 1.5 million people in Russia, Eastern Europe and Central Asia were living with HIV at the end of 2010, with the region having a prevalence of 0.9 percent. Around 160,000 became infected in 2010 and 90,000 died from AIDS. It is estimated that over two-thirds of the area’s infected people live in Russia, and combined with Ukraine, these two countries account for almost 90 percent of the region's newly reported HIV diagnoses. Both countries also have the highest number of people living with HIV relative to the general population; adult HIV prevalence is 1.1 percent in Ukraine and 1 percent in Russia” (WHO/UNAIDS/UNICEF, 2011). It is known that the prevalence in Russia and east Europe since 2001 rose for more than 250 percent. It made the region itself quite epidemic, and of course it affected the economical development.

Quite a big problem in Russia is the infant mortality. It is counted for about 11.1 infant per 1000 every year who died after the birth. Due to this indicator Russia is ranked in 56th position, while USA is in 41st position, although China is in 74th place, out of 142 countries.

What is more this pillar takes into account life expectancy as well. In Russia during the year 2011/2012 life expectancy was counted about 68.9 years, and with this data Russia was ranked in the 99th place, what actually shows, that because of the illnesses, bad environment and life conditions people do not live that long like in other BS-10 countries or whole the world. For example, life expectancy in Greece is 80.2, in Ukraine 69.2, in Romania 73.3, in Bulgaria 73.4, in Moldova 68.6, in Turkey 72.1, in Georgia 71.7, in Armenia 73.7, in Azerbaijan 70.4. Meanwhile in USA it is expected to be the year of 78.7, in China 73.3. These results show how developed are the country policy related with the medicine, at the same time it also indicates how competitive the country is. According to World life expectancy data the main reason why in Russia the life expectancy is quite low

comparing with the other regions is alcohol. “Some Russian doctors believe alcohol related diseases cause as many as 50% of Russian deaths between the ages of 15 and 54, making alcohol related deaths a key factor in their long term demographic forecasts. Russian Health Minister Golikova said that Russia is absolute world leader in Alcohol consumption” (WLE, Russian Poison – Alcohol, 2012)

For the better score of this pillar it is also very important the quality of primary education, because it helps to rise the work quality and the skills of the workers. In Russia the quality of primary education is evaluated with the score of 4, and ranked in 58th place. On the other hand in USA and China the quality of primary education is evaluated better: 4.6 score in USA and 4.7 score in China. According to BTI 2012, Russia since the Soviet Union had high standards of education, but in Post-Soviet times country could not relate education with the economic benefit, so that it was very difficult to compete with the other countries. Such factors as corruption and mass emigration lessen the quality of Russia’s education system. “The Russian government reacted to this by declaring education a top priority as one of the four national projects which receive considerable addition funding. Spending on education has increased to above 5% of GDP. However, in the 2009 PISA test, the performance of Russian pupils was statistically below the OECD average in all three categories (reading, mathematic, science)” (BTI 2012, p.18).

The last indicator in this pillar is primary education enrollment, which in Russia in 2011/2012 reached 91.8%. By this score the country is ranked in 80th position, out of 142. Meanwhile USA has the score of 92 and is ranked in 77th place and China has the score of 99.4 and is ranked in 9th position.

The recommendations for the Russia, according to this pillar, would be to concentrate country’s policy more for the health protection, what basically means to lessen the illnesses by developing the medicine and the knowledge about the HIV/AIDS impact, because there are still too many people sick with tuberculosis and HIV. Basically the problem is that government and other health institutions should create the wide spread policy about the effect of this problem.

Talking about the primary education, Russia also needs to invest in this sector in order to have more qualified workers and to be able to raise economy level.

5. Higher education and training

Quality higher education and training is crucial for economies that want to move up in the value chain beyond simple production processes and products. Today's globalizing economy requires countries to nurture pools of well-educated workers who are able to adapt rapidly to their changing environment and the evolving needs of the production system (WEF 2012, p.5).

This pillar takes into account secondary and tertiary education and enrollment rates. The quantity and quality of staff training is also included because of the professional working level which allows ensuring continuous improving of the skills.

In this pillar Russia has the score of 4.5 and is ranked in 52nd place. Comparing with the whole Black Sea region Russia's performance is evaluated in satisfactorily, because only in Greece the score reaches 4.7 and is ranked 46th position, which the highest in BS-10 region, also Ukraine has higher score than Russia which is 4.6 and ranked in 51st place, out of 142. Meanwhile Armenia has the score of 4.0 and is ranked in 76th position; Azerbaijan with the score of 4.01 is ranked in 75th position, Bulgaria with the score of 4.2 is ranked in 70th place, Georgia with the score of 3,87 is in the 88th place, Moldova with the score of 3.93 is placed in 83rd position, Romania with the score of 4.4 is ranked in 55th position, Turkey with the score of 4.02 is placed in 74th position. Due to WEF data, the average of BS-10 has a score of 4.01 and would have the 76th position. It is obvious that EU-27 has much higher score of 5.08 and would be placed in 25th position. The highest rank in this research has USA and it is placed in 13th position with the score of 5.6. China as well as the BS-10 does not have very good results in this pillar, the score is 4.3 and ranked in 58th position.

Higher education and training pillar also contains of eight very important indicators. First one is the secondary education enrolment which in Russia in 2011/2012 is evaluated of 84.8% and by this country is ranked in 75th position. Another one is tertiary education enrolment which gross is 77.2% and ranked in 13th position out of 140. According to

OECD Better life index, “Having a good education is an important requisite for finding a job. In Russia, 88% of adults aged 25-64 have earned the equivalent of a high-school degree, much higher than the OECD average of 74%. This is equally true of men and women. In terms of the quality of the educational system, the average student scored 469 in reading literacy, math’s and science in the OECD’s Programme for International Student Assessment (PISA), lower than the OECD average of 497. On average in Russia, girls outperformed boys by 15 points, higher than the average OECD gap of 9 points”(Better life index, 2012).

With respect to the enrollment in tertiary education, BS-10 region, on average, ranks in the 41st position, with China in the 85th position. The best performers are Greece (3rd/140 countries) and Ukraine (7th/140) and the worst performer Azerbaijan (90th/140). Meanwhile USA shows really good performance with the score of 82.9 and ranking in 6th position. At the same pillar China drops down with the score of 24.5 and rank of 85th position.

Quality of the education system in Russia is not evaluated very well, only 3.4 scores out of 7, by this the country is ranked in 82nd place. The quality of math and science education is evaluated with the score of 4.3 and ranked in 5th position. The data of Russia in this indicator has the same score as USA and lower than in China, which reaches the score of 4.7 and is ranked in 31st place.

The quality of management school in Russia is even worse than the previous indicator. The score is only 3.6 and ranked in 107th position. This is one of the reasons why such pillars like Business Freedom, Trade Freedom and Financial freedom (Index of Economic freedom) have so bad performance. The problem is that the country is lack of the good schools and professors who would provide the educational institutions with a new West background economy material which would guarantee better knowledge about the management, cooperation and collaboration with the other countries’ entrepreneurs. Here it is also possible to envisage the strong ruling of the government which tries to keep everything in their supervision without implementing new technologies and education schools. Completely different situation it is in USA where the quality of the management schools are evaluated with the score of 5.4 and ranked in 12th position, what means that the country are concentrated of educating qualified entrepreneurs and economists who could

bring all the innovations in this type of science. What is more, China tries to invest more and more in the education. Firstly it was seen from the primary education enrolment which was evaluated at 99.4%, what effectively means, that authority is concentrating on the young people's involvement in the education. Secondly the score of quality of management schools is 4.3, which ranks China in 59th position, which obviously is much higher than Russia's.

Internet access in the schools for such a big country as Russia is also a problem. This would probably be connected with the problem of getting electricity, what means that in this indicator Russia has the lowest rank (*getting electricity 183 place out of 183 economies*). This issue also disturbs the quality of education, because it does not provide quick information flow for the schools. This issue also could be related with the fact, that in Russia there is a strong heritage of Soviet times, this is why internet accessibility is not one of the priority matters.

Another situation is seen in USA where the score of internet access in the schools is 5.8 and the country is ranked in 24th position. This is closely related to the idea not only of governing the schools but also with the common policy to get all information as soon as possible and to develop new innovations and standards. In China the score of internet access in schools is ranked not far away from USA and is situated in 28th position with the score of 5.7.

Moreover such an indicator as availability of research and training services are also very important to the competitiveness of the country. This is why it is included in this pillar, which evaluates how easy or not it is to get the training possibilities in the country. For this indicator Russia is ranked in 77th place with the score of 4.0, while USA is ranked in 11th place with the score of 5.6 and China is placed in 42nd position with the score of 4.5. This data shows that in Russia trainings and research services are still not well prepared what makes the companies not competitive and at the same time affects the whole economy system. It is possible to claim, that in USA or China there are much more high level researchers and the any kind of work sophisticated specialists.

The last indicator which describes Higher education and training pillar is Extent of staff training. It basically means how often the trainings are done and how popular they are. So that in Russia's case it is notable that it is made not that often and massive because the

score of this indicator reaches only 3.8 score (rank of 82nd position), while in USA it is 5.0 and the country is ranked in 12th place, and China has the score of 4.2 and is ranked in 45th position. This data shows that in Russia at this moment there is poor availability to develop training and research culture so that the extent is even less possible.

All in all the first recommendation for Russia's higher education and training policy would be to rise the secondary education enrollment gross because this will also effect the tertiary education. If there be more high educated people it will also rise a chance to invest into the quality of the educational system, because there will be the need of this. What is more, with the each investigation into the education system country will need to ensure that there is possibility for the competitiveness so it will be organized more trainings and researches.

6. Goods market efficiency

Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions as well as to ensure that the goods can be most effectively traded in the economy (WEF 2012, p. 7).

It is important to know that healthy market is only when domestic and foreign markets are competitive. "The best possible environment for the exchange of goods requires a minimum of impediments to business activity through government invention"(WEF 2012, p. 7). Government invention could be called such an example as burdensome taxes or discriminatory rules which disturbs foreign direct investments (FDI) or international trade. It also claimed that market efficiency depends on demand conditions like: what is the orientation of customers and what is buyer sophistication. The level of demanding depends not only of the country itself, but also of historical, geographical and cultural reasons. This is why companies need to become more competitive and customer oriented in order to make market more efficiency.

In this pillar Russia has the score of 3.6 and is ranked in the 128th place out of 142. This result shows that till now in Russia the goods market are inefficient and uncompetitive. Also it could be made statement that there are very poor trade and market freedom in the country. This is very well explained by the Index of Economic freedom. The pillars of Trade freedom and Investment freedom explain the situation in Russia. Trade freedom is a composite measure of the absence of the tariff and non-tariff barriers, which affect imports and exports of goods and services. Trade freedom also specifies how open the economy is for the imports and services from around and the world. Also it indicates the citizen's ability to interfere freely into economy as buyers and sellers. So, in 2012 Russia has Trade freedom score of 68.2 which is remained the same as previous year. Comparing with other Black sea countries Russia's score is the lowest. This means that expansion of bureaucratic non-tariff flow of goods and services which basically damages all economy system. Except in the oil and gas sector, growth in foreign direct investment has been elusive due to the deficient investment framework. The problem that Trade freedom is very inhibited in Russia could be explained in the way that imports and exports have high restrictions, service markets have many barriers. In order to have some changes in this pillar there should be improved regulatory and administration systems, there also should be paid attention to property rights, weaken the corruption system. Another problem, which weakens goods market efficiency, could be extremely low score of Investment freedom which is only 25 (out of 100). When we are talking about Investment freedom, we should mention the economically free country, where people will not have any constrains on the flow of investments. Individuals and firms would be allowed to move their resources into and out of specific activities both internally and across the country's borders (export and import) without any restrictions. A free and open investment provides many business opportunities to expand economic activity and job creation. To compare with the other regions we can see that they perform much better: EU-27 (77.7), USA (70), CIS-13 (35). The Black sea countries average is also higher than Russia's score. It is 54.4. This very low score could be explained in a way that Russia has investments from oil and gas trade. Also the good explanation is that there is very "frozen" trade freedom and the rule of the state, which do not accept investors in the country. It is kind of closed market so there is only very limited amount of foreign investments.

More over there is a problem with a Russian law which provides national treatment for foreign investors, but there are several exceptions. In 2008, the government introduced the list of 42 “Strategic” sectors in which purchases of controlling interests by foreign investors must be pro-approved by the government. Other disturbances for investors could be such as: unreliable contract enforcement, inadequate infrastructure and financial capacity and of course the hugest Russia’s problem – corruption. Russia’s government should take this problem very seriously because it is the possibility here to develop economy in better way. New investments could bring more income to the budget (Index of Economic Freedom 2011).

In comparison with the other BS-10 countries, Russia has one of the lowest score of the Goods market and efficiency pillar, because Armenia has the score of 3.9 and is ranked in 108th position, Azerbaijan has the score of 4.12 and is ranked in 79th place, Greece has the score of 3.94 and is placed in 107th position, Bulgaria’s score is 4.08 and it ranked in 86th place, Georgia has the score of 4.16 and is ranked in 74th position, Moldova has the score of 3.94 and is ranked in 98th place, Romania has the score of 3,96 and is ranked in 96th place, Turkey has the score of 4.38 and is ranked in 47th position, Ukraine’s score is 3.58 and it takes only the 129th position. The totally different situation is in USA and this country has the score 4.80 and is ranked in 24th place, EU-27 also has not bad score of 4.61 and is ranked as 32nd position. China is ranked far away from USA and EU-27, only in 45th position, with the score of 4.42, but it is much higher that the average of BS-10 which is ranked in 108th position with the score of 3.88.

As it was mentioned market efficiency is closely related with the freedom of market and the possibility to make an international market trend. It is not possible to say that Russia is totally closed country and is concentrated only in domestic market. “Neighboring countries usually provide the most natural markets in which the competitive advantages of a country can be applied, because of needs and market conditions that are often similar. This situation applies to Russia’s relationships with its many neighbors, most of them whom were formerly part of Soviet Union” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.19). Usually neighbor countries widen the market, but in Russia’s case it is different, because ex Soviet countries have almost the same regime as in Russia and for example in Ukraine and Belarus it is the same economical situation. Investors from the West better choose Black Sea region like Romania and Bulgaria.

Such a low Russia's rank in recent pillar is because of very low domestic capital investment rate. This makes foreign investments even more important to the Russia's economy. "Some research indicates that due to relatively high prices for investment goods in Russia, even these low investment numbers overestimate that effective build up of the capital stock relative to other countries. Other countries with similar shares of gross capital investment to GDP have a far higher accumulated capital stock from past investments. Strikingly, Russia's investment rate is low despite real interest rates that are close to zero for those companies that have access to domestic credit" (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p. 35).

As in each pillar Goods market efficiency pillar also have many indicators which allows analyzing how competitive is the country. Intensity of local competition indicator of Russia is ranked in 124th position with the score of 4.0. Comparing with the USA which has the score of 5.6 (ranked in 18th place) and China which has the score of 5.5 (ranked in 22nd place) it is visible, that in Russia there almost any local competition of the market, this is explained by the huge corruption score in the country.

Indicator of extent of market dominance has also very low score of 3.3 and ranked in 101st position, while USA has the score of 5.2 and ranked in 11th place, China's indicator has the score of 4.7 and is ranked in 20th place. This data also shows that in Russia there is very poor culture of market extension.

As it is seen effectiveness of anti-monopoly policy in Russia exists also in a very low level (score 3.4, rank 111). While in USA it is developed quite effectively (score 5.0, rank 17), in China results are also much better than in Russia (score 4.3, rank 48). This data also leads to the conclusion that in Russia monopoly companies are still having high positions and anti-monopoly policy is very weak.

Extent and effect of taxation indicator in Russia also does not have high position (rank 106, score 3.1) and in USA this indicator has very low score of 3.5 (ranked in 63rd position), while China takes the 29th position with the score of 4.0.

Total tax rate in Russia are 46.5% of profits, in USA it is 46.8% and in China 63.5 %, so the Russia in this indicator in between three countries has the best performance.

What is more to start business in Russia it is needed 9 procedures, while in USA 6 procedures, in China 14 procedures. More over to start business in Russia it takes 30 days, in USA 6, in China 38. This data shows that in the East world, including Russia, it is more difficult than in the West. It is the problem in the East because of the work of institution, high level of bureaucracy and corruption.

Agricultural policy costs indicator of Russia has the score of 3.2 (rank 130), in China 5.0 (rank 9), USA score is 3.9 (rank 69). Prevalence of trade barriers indicator in Russia is ranked in 134th place (score 3.5), while in China in 63rd place (score 4.5), USA in 59th place (score 4.6).

Such indicator as trade tariffs has 11% duty in Russia, 13% in China and 1.5% in USA. Prevalence of foreign ownership is also ranked with the very low score of 3.5, in China 4.4, in USA 5.1.

Very essential indicator is Business impact of rules on FDI, and as it was mentioned before, for Russia it is very important to have direct foreign investments in order not to frozen the market and economy. This indicator in Russia is very low 3.6, in China 5.3 (rank 22), which very high results, in USA also not very high only 4.7 (rank 68). The score in China is sharply higher because the economy is very dependent on FDI.

Burden of customs procedures in Russia has the score of 2.8, in China 4.4, in USA 4.3. This indicator also shows that Russia participates quite badly in whole pillar.

Imports as a percentage of GDP takes 21.7 % in Russia, 27% in China and 15.9% in USA. In Russia the score is quite high, what means that imported product are much more expensive than the domestic products. "The statistical analysis reveals that economies of large absolute size of higher levels of GDP per capita import more. Given its size and prosperity level, Russia should register an important share of GDP of about 25%, 10% of GDP higher than the actual value. This suggests that significant barriers to imports remain in the Russian economy (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.33).

Degree of customer orientation also indicates this pillar. The score of Russia is 3.5 and ranked in 136th position; USA has the score of 5.3 and is ranked in 24th position, while China has the score of 4.5 and is ranked in 72nd position. According to business dictionary, customer orientation is explained as the group of actions and services to support the need

of clients. It include the development of product quality, response to the consumers complains and also dealing sensitively with the communities requests. This means, that in Russia there is very low concern about the costumers needs and there is almost no policy how to turn markets in a better way.

The last indicator in this pillar is Buyer sophistication. In Russia it is evaluated with the score 3.6 (rank 54), in USA it is 4.6 (rank 12), in China the score is 4.7 (rank 5).

Concluding Russia's performance in this pillar it is possible to claim that this country has the lack of foreign investments, trade and business freedom, has high level of corruption and is mostly concentrated on domestic market which is also not very well developed. The international trade is almost related only with the oil market. Although, "foreign trade was liberalized and currently the remaining restrictions are no more extensive than in OECD counties (with the exception of a temporary ban on grain in summer 2010), the state economic policy remains skewed in favor of politically influential large corporations, especially state-owned ones" (BTI 2012, p. 14). The state in Russia has developed its ownership in the economy, for this reasons many economic sectors have no possibility for private or foreign investments.

Even though Russia signed mutual agreements on WTO (World trade organization) membership with the most relevant parties, but still the membership is not certified. "Russia's foreign trade has been liberalized in principle, but substantial regulatory exceptions remain, for example on imports of agro-food products or cars and on exports of some metals, resulting in regular trade disputes – often with the EU" (BTI 2012, p. 14). These restrictions to the foreign markets and goods freeze the Russia's economy so that there are very little for the customers' choices.

In the end it would be recommended for Russia's government try to impose and develop a new market policy which would allow freedom of trade and business and would increase market efficiency. What is more there should be guarantied possibilities for the private market and also extent the export and import market in order not to have monopoly in the country. Due to this changes it would be increased the intensity of local competition, extent market dominance and business would get more FDI possibilities.

7. Labor market efficiency

The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs (WEF 2012, p.7). It is very important to have flexibility to replace workers from one economical practice to another one with the lowest possible cost and in the quick time and to ensure the payments without any disturbance of the society. “Efficient labor markets must also ensure a clear relationship between worker incentives and their efforts to promote meritocracy at the work place, and also the equality in work place must be provided between women and men” (WEF 2012, p.7).

If from 2003 to 2008, Russia’s GDP per hour worked rose rapidly, from 2008 to 2010 labor productively fell, while at the same time in emerging EU countries it was growing up. In 2010 labor productively was only 43% what composed only 74% of the level of emerging EU countries.

“The labor market tightened, although seasonal effects slowed some improvements in the second half 2011. Employment rose above pre-crisis level, and unemployment dropped to pre-crisis levels in about half of the regions” (Russian economic report 2012, p. 13). The real earnings also rose up and consumption also increased, particularly for needy households. But these changes did not help too much in a way that it increased prices of food and other necessities and because of this poverty rates stayed almost unchanged. In the second half of 2011 labor market stabilized. Also the balance between hiring and firing has been gradually restored since January 2010. What is more replacement rates improved in 2012 January in almost all sectors. “Replacement rates exceeded in energy, construction, and mining sectors, as they were hiring more workers than firing”(Russian economic report 2012, p. 14).

In 2012 in Russia the score of Labor market efficiency 4.40 and ranked in the 65th position. In comparison with the BS-10 countries it is seen that such countries as Armenia (score 4.71), Azerbaijan (score 4.95, the highest), Bulgaria (score 4.49), Georgia (score 4.74), Ukraine (score 4.44) has the higher score than Russia and the others marginally

lower. The average of BS-10 has the score of 4.71 which is higher than Russia's. Also USA has the higher score of 5.57 and ranked in 4th place, what shows that unemployment rate or the difference between hiring and firing from the work is very little, and the market itself is very flexible, labors are skilled for quick re-qualification. The EU-27 score is even lower than Azerbaijan and reaches only 4.48 and is ranked in 57th place. China also shows better results than Russia. The score in China is 4.68 and is ranked 36th place.

Labor market efficiency is defined by several indicators. First one is Cooperation in labor-employer relations; in Russia it has the score of 3.6. In USA this indicator has the score of 4.8 and rank of 36th, China has the score of 4.5 and placed in 51st place. It is obvious that Russia has the worst results and the cooperation of labor-employer is quite weak.

Flexibility of wage determination in Russia is ranked in 83rd place with the score of 4.9, in USA score is 5.5 (rank 32nd), in China score is 5.3 (rank 52nd). It shows that the wages in Russia are quite fixed and it does not depend of economical development what means that even if the economy grows (on the other hand falls) there are not that easy to change the wages.

Rigidity of employment has the index of 38, out of 100 (worst), China's index is 31, and USA has index of 0 and is ranked in 1st place. "The rigidity of employment index measures the regulation of employment, specifically the hiring and firing of workers and the rigidity of working hours. This index is the average of three sub indexes: a difficulty of hiring index, a rigidity of hours index, and a difficulty of firing index. The index ranges from 0 to 100, with higher values indicating more rigid regulations" (EDB 2012). Talking about Russia it is obvious that rigidity of employment is not very strong and itself it shows that the control and regulation of this index is not well developed in Russia.

Hiring and firing practices evaluated in Russia with the score of 3.7 and rank of 85th, while China is placed in 44th position with the score of 4.3 and USA with the score of 5.1 in 8th place. Even though from 2009 to 2011 unemployment was reduced and offered more job places, in 2011 unemployment rose again, what means that there is no stability in the country for the hiring and firing people. What is interesting in Russia's case the unemployment rate significantly raised in rural areas in 2011 during August which were influenced by the seasonal patterns, and in 2012 unemployment rates in rural places were twice as high as in urban ones.

Redundancy costs in Russia are evaluated of 17 weeks of salary, while in China 91 and USA 0, it is placed in 1st position.

Pay and productivity indicator in Russia has the score of 4.0, in USA 4.9 and in China 4.7. According to BTI 2012 most Russians lack the financial means for private insurance and pension system, private companies are underdeveloped. This is the result of the bad productivity and of course payment for workers.

Reliance on professional management in Russia is evaluated with the score of 3.7 (rank 112), USA has the score of 5.5 (rank 17), China 4.7 (rank 46). It is obvious that there is quite small reliance on professional management, which is actually related with the fact, that in Russia there is a huge lack of quality of management schools and also availability of trainings and researches is not high. These facts unable Russia to have good management system, while we are talking about the labor market efficiency, what basically means, that there is no policy and flexibility to observe, where at particular moment economy needs bigger labor force, where it should be retrained to other sectors.

The Brain drain indicator in Russia is evaluated with the score of 2.9 (rank 98), in China 4.3 (rank 33), in USA 5.7 (rank 3). Brain drain is defined as human capital flight, which means large scale emigration with a huge amount of the people. There are several reasons for migrating such as social environment, political instability, and lack of opportunities. Brain drain is often associated with de-skilling of emigrants in their country of destination, while their country of emigration experiences the draining of skilled individuals. In Russia as we see the score is very little, so people try leave the country. “Corruption and comparatively low living standards ensure that Russia’s brain drain continues even in relatively stable economic times. A brain drain is only possible in a closed system”(Y.Ponomareva, The Moscow News, 2012)

Due to the Russian sciences specialists, young people are searching for better opportunities abroad, so that a total of 1.25 million Russian specialists are working abroad. “In the spring of 2012, a report by Federal Migration Service chief Konstantin Romodanovsky stated that an additional 70,000 Russians had left the country in 2011 – though it is hard to determine how many of those people left for good, since few renounce their citizenship” (the Moscow news.com). Due to the “Moscownews”, people are complaining not only about job perspective, but also about life conditions and comfort in

the country. According to the indicator of Women in labor force ratio to men Russia is ranked in a quite high position 18th.

All in all talking about Labor market efficiency in Russia, due to Global Employment 2012 report, for the Russian Federation, growth is expected to be moderate, averaging 4.2 per cent during 2011 and 2012. What is more, talking about all BS-10 and CIS region “despite a decrease of 0.9 percentage points, the unemployment rate in the region remained high at 8.6 percent, which is 2.6 percentage points higher than the estimated global average of 6.0 percent in 2011. During much of the past decade, the adult unemployment rate in Central and South-Eastern Europe (non-EU) and CIS has been the highest in the world” (Global Employment 2012 report, p.54). In 2012 unemployment rate in Russia reached 7.1% of labor force, what is relatively close to BS-10 region average which is 9.4%. Comparing with other BS-10 countries, Russia’s unemployment level is not as high as in Greece 18.5% or Turkey 10.7%, but higher as in Romania 4.8% or Azerbaijan 6.0%. Talking about Russia, since 2009 it is reducing from 7.5% to 7.1%. It is not huge changes, because as the indicators showed, Russia does not try to make big changes in the policy of labor force, what would make unemployment rates smaller. The highest difference between unemployment scores was in the year of 2009, because Russia had to recover after 2008 year crisis, even though it did not damaged economy as much as in other BC-10 countries like in Greece or Bulgaria, where the score of unemployment rose up very fast. Comparing Russia’s unemployment level in 2012 with other regions it is lower than in USA which is 9.0%, EU-27 9.4%, CIS 6.2% and China 4%. So it is obvious during all the research about labor efficiency, that maybe Russia is not very well prepared for hiring and firing practices, there are also very low wage determination flexibility but it is obvious that unemployment rate, comparing with other very well developed economical regions is not that high.

In order to improve labor market efficiency Russia should pay attention to the facts, why young people are trying to leave the country and also try to increase the salary and the trainings to get more professionals. This also affects reliance on professional management, which is also dependent on a good educational system. Until now Russia uses all her advantages mostly from the primary and industry sector, and the service sector is very low. So, due to this, there should be improved service quality in order to compete with the other high level economies.

8. Financial market development

The recent economic crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities. Financial sector distributes the resources saved by a country's citizens, also new economies from abroad for their effective uses (WEF 2012, p.7).

It is also important to evaluate and business investment which is critical to productivity. What is more, economies need high quality and well developed financial markets because they can help for private sectors to invest into available capital. "Investments could be done from such sources as loans from a sound banking sector, well-regulated securities exchanges, venture capital, and other financial products" (WEF 2012, p.7).

Banking sector also needs to be clear, reliable and uncorrupted and needs to have very precise regulation to protect investors and other participants in the economy.

In this score Russia has the lowest score in between all the BS-10 countries. In 2011/2012 in Russia the score is 3.21 and country is ranked in 127th place out of 143. The best performer in Black Sea region is Turkey with the score of 4.26 and ranked in 55th place. BS-10 average is also higher and the score is 3.76 and is placed in 95th position. Meanwhile USA has score 4.87 and is ranked in 22nd place, EU-27 has the score of 4.44 and ranked in 44th position, China with the score of 4.42 is in 48th position. These results show that financial market sphere is developed quite badly. Russia can not show good results in this pillar because of the Financial freedom problem which is obvious from the Economic Freedom Index 2012. Financial freedom is one of the basic requirements in order to have developed financial market. Financial freedom evaluates efficiency of banking and also its independence from government control and interference in the financial sector. State ownership of banks and other financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services (Index of Economic Freedom 2011). As with the banking system, the useful role for government in regulating these institutions is to ensure transparency, disclosure of assets, liabilities, and risks; and to ensure integrity. In the Financial freedom pillar in 2012

Russia has score of 40, which is quite low. It has not changes from the last year. These facts show that Financial freedom is very limited in Russia and that the government plays a huge controlling role in this field. This very low score of Financial freedom could be explained by the fact that in mid-2011, regulators and the state-controlled VTB Group bailed out the Bank of Moscow with an injection of \$14.2 billion, which effectively mean that the bank is regulated by the state and this contradict to the main idea of Financial freedom. What is more, Russian small and undeveloped financial sector remains in a strong governmental control because state-owned banks dominate in the sector and account for over one third of total assets. The more than 1000 licensed and registered banks are very small and undercapitalized, but consolidation is underway (Index of Economic freedom 2011). Also more than 60 banks were eliminated, but the government prevented the closure of large lenders. Due to this explanation it is obvious that private bank sector can not even compete with the banks supported and ruled by the state and it is a huge problem which impacts the economy. The Russia's banking sector, as it is obvious, is in a low undeveloped level, what disturbs its function as a financial intermediary and also it is too weak to compete in international level, what also a disadvantage for the competitiveness of Russia.

Like the others, this pillar also has several indicators in order to evaluate the competitiveness. First one is availability of financial sectors, which in Russia has the score of 3.7 and ranked in 119th place. This result shows that there is not so easy to reach financial services in Russia. Meanwhile USA has the score of 6.0 and is ranked in 13th position, Chine with the score 4.7 goes to the 60th place. Obviously it is seen, that in Russia financial sectors are not easy to reach or they have very complicated service system.

Affordability of finance services is also ranked very low in 112th place with the score of 3.5. USA has the score of 5.3 and China the score of 4.7. This indicator in Russia also has extremely bad evaluation, meaning, that financial services in the country have deep problems and are almost inapproachable.

One more indicator such as financing through local equity market has the score of 3.1 in Russia, which by this is ranked in 98th place. It is obvious that in USA local markets are more equate than in Russia, because USA indicator has the score of 4.3 and ranked in 28th

place, the same we could say about China which has a score of 4.0 and is ranked in 46th position.

As it was mentioned before all the banking system is mostly ruled by the government and to make some finance processes takes quite a long time. So that it is also very difficult to access to loans in Russia. In USA it is much easier, due to the score of 3.7, and in China as well, because the indicator is evaluated with the score of 3.1, but in Russia it is only 2.4.

Venture capital availability in Russia evaluated with the score 2.3 (rank 88th), in USA 4.0 (rank 12th), China 3.5 (rank 22nd). According to ex president of Russia Dmitri Medvedev, the venture capital market in Russia is very low (Voice of America 2010). “There is a clear tendency in Russia of spending government funds on research and scientific development, and a shortage of venture capital. There are about 20 venture funds in the country with combined assets of roughly \$2 billion. He says that is virtually nothing compared to the United States and other countries” (Voice of America 2010).

Soundness of banks in Russia has a score of 4.0 which comparing with other countries are very low because Russia is ranked only in 129th place. Not in such a good position is situated USA, which is ranked in 90th place, with the score of 4.8. China has the score of 5.3 and is ranked in 64th place. As it is visible from the data, the bank system in Russia is not safe. Firstly it is related with the Soviet Union legacy. Secondly, high level of corruption and unstable rule of law made the banking very unsafe in Russia.

Regulation of securities exchanges in Russia has the rank of 116 with the score of 3.5, in USA it is the score of 4.6 and the rank in 48th position, in China 4.5 and ranking of 53rd place. These results also explain how well developed are the regulations of security. To compare with the world data, Russia is situated in really low position, what basically means that there is not any security for the financial market.

The last indicator in this pillar is legal rights index, counted from 0 to 10 (best). In Russia it evaluated of the score 3 (rank 105th), in USA 8.0 (rank 20th), China 6.0 (rank 60th). According Business dictionary, legal rights are legally guaranteed powers available to a legal entity in realization or defense of its just and lawful claims or interests (such as individual freedom) against “The whole world”. Legal rights (like laws) affect every citizen, whether or not the existence such rights is publicly known (Business dictionary).

This is also affected due to the situation what is created in economy due to the Rule of law. The problem is that Russia “shows serious deficiencies in checks and balances among the different branches of government (ranking 55th), leading to an institutional environment characterized by corruption, impunity, and political interference. Regulations are not always enforced (ranking 49th), and civil courts, although accessible, are corrupt and inefficient. Crime rates in Russia are not as high as those in other middle income countries (ranking 8th out of 19), and the criminal justice system is relatively effective (23rd).

Violations against some fundamental rights, such as freedom of opinion, freedom of association, and arbitrary interference with privacy are areas of concern”(Rule of Law Index 2011, p. 32).

In conclusion it would be recommended for Russia to take more attention to Financial Freedom, what basically means to leave some space for the banks to develop their market. State owned banks are dominating so that there is no competition and the financial market stays in undeveloped level. Due to this it should be done some changes in the Rule of law and the government management in order to raise the quality of financial market, because this pillar is very important for the competitiveness, because it is related with international relationship. If the system was safe and secured, there would come more investments in the country.

9. Technological readiness

This pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICT) in daily activities and production processes for increased efficiency and competitiveness (WEF 2012, p. 7). ICT is very important for the whole country’s technological readiness, which has impact to economic growth and increase of productivity. “The central point is that the firms operating in the country need to have access to advanced products and blueprints and the ability to use them”(WEF 2012, p. 7). Also FDI plays very important role, connected with

the development of technologies. In this context it is need to be claimed that the technology available to the companies in a country should be separate from the country's ability to renew and expand frontiers of knowledge.

According to IBMGlobal Business Service Report, technology is a major driver of productivity, as it enables transformation of business processes and applications and improves organizational effectiveness (IBM Global Service report, 2009, p.1). In order to drive productivity and its growth, Russia's firms and companies need to improve technology adoption. "Use of the internet and online public services by Russian business lags that of global leaders, and Russian companies have not yet tapped the potential of technology to improve business processes"(IBM Global Service report, 2009, p.1). One more problem is that the adoption of technological infrastructure is too much restricted by government. Another one major barrier for improving technology is that the government of Russia leveraged online public services not fully, meaning that companies can not effectively use them. The indicators of this pillar also show where the main reasons for the backwardness are. The first one, availability of latest technologies in Russia has the score of 4.1, which actually is very little, because country has the rank of 121st place. USA differently has quite high score of 6.3 and ranked in 18th position. Meanwhile China with the score of 4.5 stays in 100th position. In order to reach the results and boost productivity Russia's companies need to take a strong role and remove these barriers, what takes into account house-trainings, anticipating future skills needs, collaboration with the government.

Firm-level technology absorption in Russia is evaluated with the score of 3.8 and ranked in 130 place, while USA has a score of 5.9 (rank 18th), and China's score is 4.9 (rank 61st). This low score of Russia could be related with the fact that technical skills of the workers are very poor. "Technically skilled professionals are available but a high price, and training is available only for a fraction of the workforce" (IBM Global Service report, 2009, p.6). What is more, Russian companies and firms have many difficulties to adopt technologies because the management system is undeveloped.

The Foreign direct investment (FDI) and technology transfer pillar has also very low score of 3.7, which leaves Russia in 129th place. Meanwhile USA stays in 49th place with the score of 4.9 and China in 80th place with the score of 4.6. The problem in Russia is the lag

of the technologies and skilled workers that is why foreign investors still do not want to anchor in technology incapable economy. “Foreign investment can contribute to technological process and innovation through the direct importation of modern capital, managerial skills, and corporate practices, as well as indirectly through linkages with domestic companies, worker training and more intense competition on domestic markets. Russia does not effectively leverage this source of technology transfer”(IBM Global Service report, 2009, p. 10).

The other indicator shows that there are only 43 internet users per 100 people, while in USA there are 79 users per 100 pop. in China 34.3. These results also show that it is quite difficult to access internet in Russia. The same problem was mentioned before while it was talked about internet accessibility in the schools. What is more, such a small amount of people not connected to internet also lessens the competitiveness of the country, because it means, that people can't not physically use it or do not have such skills. Due to these results, Broadband internet subscriptions in Russia is 11/100 pop, in China 9.4/100pop, in USA 26.3/100pop.

The last indicator in this pillar is internet bandwidth witch in Russia is evaluated 13.2 kb/capita with the rank of 41, in USA 29.0 kb/capita and in China 0.8kb/capita.

Due to Susanne Dirks and Dr. Mary Keeling, the success of Russia's competitiveness depends very much on the technology and this factor needs to be approached in certain way. One of the things is that management needs to take away barriers to technology what means to adopt new ways not only of technology staff, but also the way of thinking. In order to raise the level of technology and competitiveness Russian companies need to provide workers with the trainings, develop workforce, develop closer cooperation with the government but not let government to rule all spheres and institutions. Secondly, “management needs to build the capability to handle risk generated by the changes involved in adopting technology and boosting innovation”(IBM Global Service report, 2009, p.9). What is more, there should be build the cooperation between culture of organization and technology. Also technology needs to become a target of each company's mission and vision. Also with a new and modern technologies Russia should pay attention to FDI because it is needful for the growth of economy and new business possibilities.

Companies need to compete between themselves in order to high qualification.

10. Market size

The size of market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders (WEF 2012, p. 7). In nowadays international markets became very important, especially to small countries, which can not assure the economics growth only with in the domestic market. It is known that more country is opened for international trade, more possibilities it has to develop her economy in different markets. By including both domestic and foreign markets in our measure of market size, we give credit to export-driven economies and geographic areas (such as European Union) that are divided into many countries but have single common market.

In 2012 comparing with the other BS-10 countries Russia had the biggest market size which was evaluated with the score of 5.73 and ranked in 8th place. Actually this is one of best factors for Russia's competitiveness. And this matters because Russia is the biggest country in the world. The smallest market in BS-10 region belongs to Moldova which has the score of 2.43 and is ranked in 122nd place. Meanwhile BS-10 average is 3.93; USA has the score of 6.92 and is ranked in 1st place. On the other hand quite big market sized EU-27 has the score of 4.29 and is ranked only in 50th position. China has the score of 6.77 and is ranked in 2nd place. As it is visible, Russia has the high possibilities to reach the biggest market in the world due to its size, but here is the problem because of the exports and imports. Contrary than the other big countries, Russia has very closed economy, what basically means that exports out of the country are very little. What makes Russia to have a high score is oil and gas production, because Russia provides a huge part of Europe and Black Sea region with the oil and gas. This is why market becomes so big. But other trades are not developed at all. "Russia's export share is four times higher than its average in unprocessed natural resources and two times higher in semi-processed natural resources, while only about half the average in proceed goods and services" (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.30). Only the oil and gas production compose more than 50% of total exports. As it was mentioned in the very beginning of thesis, Russia is using

its natural resources mainly, but it is not creating the product or additional growth of economy. “Russia has lost market share in many clusters inside and outside of natural resources, including some of most important clusters. The exceptions are coal and briquettes, construction services, forest products, furniture, and transport and logistics. Overall, Russia has only maintained its overall world export market share despite rapid economic growth because its few resource-intensive clusters have grown, largely because of rising commodity prices” (M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.31).

In this pillar there are only two indicators which help to analyze the market size. First one is Domestic market size, where Russia has the score of 5.6 and is ranked in 9th position. Meanwhile USA has the score of 7.0 and obviously it is the biggest domestic market in the world. China is the 2nd biggest domestic market with the score of 6.7.

The second indicator – Foreign market size leaves Russia in 8th place with the score of 6.1, USA in 2nd position with the score of 6.7 and China in the 1st with the score of 7th.

Besides the fact that Russia is biggest country by the size it still can not compete with the countries like USA and China, which has the biggest foreign market size and the second big domestic market. Due to this, Russia should pay attention to the possibility to develop not only natural resources markets but also create some service and product markets in order to be competitive with USA and China. Also the export restrictions should be lessen in order to have companies which will be able to export their goods to other countries and to bring back the benefit to the Russia’s economy.

11. Business sophistication

There is no doubt that sophisticated business practices are conducive to higher efficiency in the production of goods and services. Business sophistication concerns two elements that are intricately linked: the quality of a country’s overall business networks and the quality of individual firms’ operations and strategies (WEF 2012, p.8).

The quality of country’s business depends on the networks, how extended they are in the country and out of it, supporting industries, and also on suppliers of new industries. When

Suppliers and companies get together and work in a one global cluster it rises up efficiency of the business process and it bring bigger opportunities (M.Porter theory). “Individual firms’ advanced operations and strategies (branding, marketing, distribution, advanced production processes, and the production of unique and sophisticated products) spill over into the economy and lead to sophisticated and modern business processes across the country’s business sectors (WEF 2012, p.8).

Since 2005 private enterprises’ share in GDP slightly declined. This is the result because Russian government still wants to keep strong control under the business. “The prime example for this is oil industry, where the share of state companies in production has risen from 15% in 2004 to about 40% in 2010”(BTI 2012, p.16). Also in recent years there has been any important privatization. So that the natural monopolies still exist powerful.

In 2011/2012 in Russia in Business sophistication pillar has the score of 3.34 and is ranked in 114th place, out of 143 and is one of the lowest in BS-10 region. Only Moldova has the lower score of 3.27 and is ranked in 117th position. Meanwhile BS-10 region average is 3.56 and ranked in 95th position. In 2011/2012 in USA the score of Business sophistication is 5.35 and the country is ranked in 10th place. EU-27 has the score of 4.62 while China has the score of 4.37.

Due to this pillar, it is clear, that Russia does not show good performance neither in BS-10 region nor in global world. This could be explained because of the fact that in Russia it is very strong government rule and there is no business freedom. Business freedom is a quantitative measure of the ability to start, operate and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process (H.Papanagos, 2012, Index of Economic Freedom). Also Business freedom is related with individual’s right and ability to establish and run business without intervention from the State. In 2012 Business Freedom pillar has a score of 65.1 which have been increased by 14.4 points comparing it with the year of 2011 when the score was 50.7. These results show that in 2012 it became easier to establish business and to operate private enterprises as previous years. These changes can also be related with the fact that Easy of Doing Business (EDB) index in Russia also has some changes. In 2011 Russia was ranked in a 124 position of all participant countries (rank 183 economies) and in 2012 in increased in 4 positions and took a 120 position (120 between 183 countries). These

results are based on the facts that according to *Starting business pillar (EDB)* Russia is ranked in 111 position and it is lower position than in 2011 when Russia was in 106 position. Also Russia has a very low position due to these pillars: *Dealing with construction permit (178 place out of 183 economies); getting electricity (183 place out of 183 economies); Protecting investors (111 place out of 183 economies); Getting credit (98 place out of 183 economies)*. Appealing to these facts it is obvious that Russia's Government does not pay enough attention to protect and support new markets and entrepreneurs. Contrary, it looks that State can not protect investors can not support them with the stable credits. On the other hand it is seen that such pillars as: *Registering property (45 place out of 183 economies), Paying taxes (105 place out of 183 economies), Enforcing contracts (13 place out of 183 economies)* have some positive changes what effectively means that Government solved some problems which disturb to "healthy" economy.

Business sophistication is determined by several indicators. The first one evaluates local supplier quantity, which in Russia has the score 4.1 and ranked in 116th position. In USA this indicator has the score of 5.5 with the rank in 12th position and in China the score is 5.4 with the rank of 19th. These results show that there are not strong and sophisticated business suppliers because of the strong control of the government in Russia. Also there is a problem because of the technological readiness and difficult process of starting business in Russia.

Second indicator local supplier quality is evaluated also not high in Russia. The score is 3.8 and country is ranked in 121st position. Meanwhile USA has the score of 5.5 and ranked in 13th position, China with the score of 4.6 in 59th place. This very low rank in Russia is caused by many reasons starting from the low level of infrastructure, quality of management schools, macroeconomic environment, quality of clusters and their readiness for partnership to low business impact to the FDI, also low degree of customer orientation, ease to access loans and FDI and technology transfer, which also has very low score. These factors are very important to the quality of the local suppliers, but it is obvious that till now quality of them are very low and it does not help to make Russia's economy more competitive.

State of cluster development are also evaluated quite low, only with the score of 3.2 and rank of 92, while USA has the score of 5.1 (rank 9th position), China has the score of 4.7 (rank 17th position). Clusters, according to M.Porter, refer to geographically concentrated groups of interconnected firms and related institutions of similar activity. Clusters are very important because they can show how productive and effective are firms. As it was mentioned before, it is known, that state of clusters there is not strong, and the problem is that there are no strong and so many developed companies in order to compete or to create the high market level. “Russia has a larger share of its overall employment in the traded sector than developed OECD countries. This is probably due to the limited local personal and business support services available in Russia. Within the traded sector, Russia is relatively specialized in capital – and resource-intensive clusters as well as education and knowledge creation. Compared with more advanced economies, Russia is weak in business services and financial services”(M.Porter, Ch.Ketels, M.Delgado, R.Bryden, 2006, p.62). This disadvantage of country’s economy is mostly related with the planned economy focus without any chance to erupt new companies or industries.

According to business dictionary, *competitive advantage* is a superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities (Business Dictionary).

In 2011/2012 Nature of competitive advantage in Russia was evaluated with the score of 2.8, which comparing with USA 5.2 and China 3.8 is very low. This is also related with the fact that Russia’s economy and business are not flexible and can not provide customers with the higher quality products or create competitive variety of them.

Value chain breadth in Russia has the score of 2.8 and is ranked in 124th place. Meanwhile in USA it reaches 5.1 score and in China the score 4.0. This measurement is very important for the business because it consist of inbound distribution or logistics, manufacturing operations, outbound distribution or logistics, marketing and selling, and after-sales service. These activities are supported by purchasing or procurement, research and development, human resource development, and corporate infrastructure (Business Dictionary).

Such an indicator as control of international distribution in Russia has the score of 3.6 and is ranked only in 110th position. In USA it has the score of 5.1 (rank 9th) and in China 4.4 (rank 37th).

As it is seen from the data production process sophistication is also low in Russia, because it is ranked in 107th position with the score 3.1. This means that basically the process is very slow and badly sophisticated. This attitude to the production can not provide business with the competitive goods or services. This is why Russia, comparing with the other countries (USA ranked in 15th place, China ranked in 52nd place) are in that undeveloped position.

Extent of marketing in Russia is not well developed because of such reasons as poor quality of extent of market dominance, extent and effect of taxation, also the bad competence of specialists and lack of international experience. In Russia this indicator has a score of 3.5, in USA 5.9 and in China 4.5. There is a huge difference between USA and Russia, because USA is one of the favorites in the world due to this indicator.

The last indicator in this pillar is Willingness to delegate authority, which in Russia has the score of 3.0 and is ranked in 117th place, in USA has the score of 5.1 and is ranked in 10th place, in China has the score of 3.8 and is ranked in 54th place. As it is seen with the authority of business it is also difficult in Russia.

Concluding the data of Business sophistication in 2011/2012 it is important to say that Russia's performance is quite bad. In order to success in economy it is important to ensure that small and medium size enterprises (SMEs) have a possibility to do a business easily. "In leading economies, SMEs are key drivers of job creation, innovation, competition, and economic growth"(Russian Economic report 2012, p. 30). According the recent data, it is obvious that in Russia still there is a problem with developing SMEs that is why it slowed down the growth of economy, competition, and innovations. According to the Doing Business index, Russia is ranked in 120th position out of 183 countries. "This ranking suggests that the regulatory environment in Russia is less business-friendly than the EU-27 or BS-10 countries"(Russian Economic report 2012, p. 31).

In order to achieve some positive changes in the business sophistication pillar, Russia firstly needs to allow small enterprises to develop their business and to compete in

between themselves. This is how it would be risen the knowledge, quality of the business management. Also it is very important to ashore that in the country there will be local supplier quality and quantity which will be able to support business. By any doubt there should come foreign investors who would made the competition with the domestic market and that is how the level of business would rise. What is more the government should give some freedom for the entrepreneurs to control market and also to export not only the gas, oil but also services and think of developing other industries.

12. Innovation

“Innovation is particularly important for the economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear”(WEF 2012, p. 8). It is also explained that the living standards, technologies, labor efficiency could be improved only by introducing innovations. In order to improve productivity less-advanced countries can accept the newest technologies and later keep adopting innovations. In high level countries firms need to design and proceed cutting-edge products to maintain the country competitive. “This progression requires an environment that is conducive to innovative activity, supported by both the public and the private sectors”(WEF 2012, p. 8). Especially the private sector plays a key role in here because it stars research for new innovations, collaborations with different companies and firms in various areas of industry and business. It is very important to ashore that the public and private sectors invest in research and development (R&D). This investment will lead economy into better future. According to the IBM Global Service report, innovation, which often leads to the creation of new products and services, the improvement of existing offerings or the creation of new business models, is a key contributor to productivity growth (IBM Global Service report, 2009, p.1). Russian government also needs to tackle implements in order to improve innovations. It is also very important to reform innovations and to collaborate information and the benefits with the technologies. Despite the fact that in 2011/2012 Russia’s rank of innovation pillar is quite low only 3.1 with the ranking in 71st position, this country has a lot of ambitions for 2020. According to IBM Global Service report, Russia’s 2020 years plan consist of many details: “increase the

proportion of industrial enterprises implement technological innovation from 9.5% to 40-50%; to spend double on R&D as a proportion of GDP; boost the proportion of innovation products in total manufacturing production from 5.6% to 12%; increase the proportion of high-tech sectors in GDP from 10.5% to 18.6%. These ambitions show that Russia is trying to become more competitive economy, but this year results do not show a huge improvement in innovation pillar.

In 2011/2012 comparing with the other BS-10 countries Russia has one of the highest score in Innovation pillar. Innovation pillar is evaluated with the score of 3.14 and ranked in 71st place. The higher scores have the countries like Turkey (score 3.15, rank 69th), Azerbaijan (score 3.20, rank 60). What is more the BS-10 average is also with lowest score of 2.92 and rank of 94th position. Meanwhile USA in this pillar is participating very well it has the score of 5.57 and the rank of 5th position. EU-27 has the score of 4.05 and is ranked in 27th position, while China has the score 3.92 and is ranked in 29th place. These results show that besides the fact that Russia lags from the West world what concerns innovations, but in the BS-10 region Russia is participating quite well. To see the particular analyze it is better to look through the indicators of this pillar.

First indicator is related with capacity for innovation and in Russia evaluated with the score of 3.5 and ranked in 38th position. On the other hand USA is even higher with the score of 5.2 with the rank 7th position and China with the score of 4.2 and the ranked 23rd place. This indicator shows the competence of a country to adopt new innovations and the readiness to it. "The weak innovation performance of Russian companies is reflected in a private sector focus on imitation based innovation. When ranked on the capacity for innovation by conducting formal research and pioneering new products and processes, Russia is ranked 45th out of 134 countries in 2008, illustrating that Russian companies are not global leaders in this are"(IBM Global Service report, 2009, p.7).

Talking about other indicator Quality of scientific research institutions it is visible that Russia has very bad development of this issue, the score is 3.8 and the rank 60th. Meanwhile USA has the rank of 7th with the score of 5.8 and China the rank 38th with the score of 4.3. The low level of training and quality of math and science impacts the quality of research possibility. New researches help to raise the level of technologies and

infrastructure, but it is obvious from data that to reach West level Russia needs to improve a lot in this sphere.

In Russia company spending on R&D is evaluated with the score 3.1 and ranked 61st place, USA evaluated with the score of 5.3 (rank 6th), China's score is 4.2 (rank 23rd). "Russia's poor innovation input could be explained by relatively low business expenditure on R&D and gross expenditure on R&D"(IBM Global Service report, 2009, p.7). Another one explanation related to spending on R&D and poor innovation sphere in Russia is because innovation inputs and outputs are orientation of innovative activities in the country toward imitation, rather than innovation which is related with knowledge that requires new products to market. "Considering the orientation of Russian companies toward imitation and the low levels of R&D expenditure and innovation output performance, it is not surprising that Russia's overall innovation performance, which captures both input and output innovation, lags global leaders"(IBM Global Service report, 2009, p.7).

University-industry collaboration in R&D indicator in Russia is evaluated with the score of 3.5, in USA 5.7, in China 4.5. It is explained that Russia has such a low rank because there are not that much availabilities in Russia like in USA or China of specialized research and training services, also scientists and engineers do not improve their skills together.

What is more Gov't procurement of advanced tech products in Russia evaluated only with the score of 3.3, in USA 4.7, in China 4.4. According to the low level of technologies and their implementation it is obvious that this indicator can not be high as well.

Availability of scientists and engineers in Russia has the score of 4.0 and is ranked in 72nd place, in USA it has the score of 5.5 and is ranked in 4th place, in China has the score of 4.6 and the rank of 33rd place. This shows that there not enough specialists in Russia who could develop and adopt new innovations. These problems are strongly related with the fact that high education is not very high leveled, also there not enough trainings and possibilities for research in order to raise the level of scientists or engineers.

The last indicators of the pillar shows that in Russia utility patents are granted 1.9/million pop, in USA 339.4/million pop., in China 2.0/million pop.

Concluding Innovation pillar it is recommended to Russia to let improve companies and firms their skills what basically means to adopt innovations according to their needs and requirements. Also Russia's government needs to tackle barriers to improving innovation in education and science sphere as well. In order to develop and compete with other countries' innovation Russia also should pay more attention to technology readiness, high education level and possibilities to get internet access, also important indicator to this is training courses and possibilities to make researches.

POLICY RECOMMENDATION FOR GCI IN RUSSIA

In 2011/2011 Russia in GCI has showed satisfactory results, what means that Russia is ranked in 66th place out of 142 countries with the score of 4.21. Besides several new implementation of common economic policy Global Competitiveness Report points out that there are still many issues which need to be changed in order for the better competitiveness in global economy.

Firstly Russia should deal with the corrupted and bureaucratic Institution system. People do not trust them, and this is why the level of these governmental institutions is quite poor. Even more this means kind of political instability which needs to be reformed into secure and reliable institutions. Here into account is taken and judicial system, which also needs to be reorganized into much more qualified and responsible system. What is more there should be more collaboration between institutions and private sector, because in Russia there is a need to raise the level of private businesses and this is possible only with the public and private sector cooperation.

Furthermore Russia has the huge problem with the infrastructure, because it is geographically big country, but the railways and highways are not very high quality. It is difficult to reach some objects. What Russia's Government should do firstly is to invest more percent of GDP to infrastructure and renew it. In order to give some money for infrastructure the Budget of Russia also should improve so it means more revenue this could be done or by allowing new business or collecting more money from society, which it would be very bad with the living conditions. In order to be more competitive Russia should proceed not only the level but also quantity of the roads, railways, electricity support and use of the rivers, which could also be useful by transporting huge quantity of goods.

In the context of Macroeconomic environment Russia should take care of economical stability and productivity what basically means more effective and efficiency services and production. To develop it in a right way firstly it should be created particular social and political context: no corruption, and healthy competition between firms and companies. There also should be stable financial sector, which should refuse so much dependence

from oil and gas export. One more thing the banking system, which shouldn't be so supervised from the central government.

The problem in Russia what actually involves many sectors are the health and education levels. Due to the fact that there is a huge alcoholism in Russia people have no motivation to work and this is still the issue of not enough qualification of workers. Secondly, because of not enough amounts of various specialists many institutions are working slowly. Increase the investments into education sector also would benefit to the competitiveness and global Russia's economy.

Goods market efficiency also has not a good image in Russia. Even though it is huge domestic market it can not reach high level because of the corruption and monopoly which is strongly spread in whole country. Also the problem which is needed to be solved is bad conditions for FDI. Investors from the other countries can not come in the Russia's market because of the instability and huge restrictions which need to lessen in order to collect more finance to the country's budget. New and free market policy would be a solution to make market more efficient.

Labor market efficiency is strongly related with the education and the training possibilities. Due to this it should be organized more training courses and educational programs to raise skills of workers. Also because of huge migration of young people there is a problem of working places, because it is not enough of people to make processes faster.

Russia should also pay attention to the technological readiness. Due to this it could be done more research in order to raise a level of technology. What is more many companies are still working with the old techniques which stops the speed of work and at the same time the competitiveness not only of the company but also of whole bureaucratic organism. New technologies also will attract and FDI which are very important for domestic business in order to have a competition. Innovations also like new technologies also need to be improved in the country otherwise Russia will lag from other countries back.

CHAPTER IV. EASE OF DOING BUSINESS

The Ease Doing business (EDB) project takes a different approach from perception surveys (EDB Report 2012, p.16). It analyses and shows the progress of domestic, small and medium size companies and firms. Also this survey measures the regulations applying to them through the period of their existence. This survey helps to analyze about 183 economies, compare them by the various indicators which are related with Doing business index. “Rules and regulations are under the direct control of policy makers and they are intending to change the experience and behavior of businesses will often start by changing rules and regulations that affect them”(EDB Report 2012, p.16). So basically Doing of business helps to identify the problems and finds out specific regulations and procedures which are need to be done. It is important to observe, that Doing Business methodology allows very objective comparison on the other hand it is quite limited. The main advantages of Doing business index would be such as: transparent, based on factual information about laws, regulations, standard assumptions, data highlight extent of specific obstacles, nearly complete coverage of world’s economies. However, there are some limitations such as: not full measurement of business environment, focus on formal sector, reforms are related only with specific indicators, part of data obtained refer to an economy’s largest business city only. This year (2011/2012) report covers 10 indicator sets and 183 economies. The main goal of this index is to ashore objective data for improving and developing regulatory environment for business.

What is more, Doing Business takes into account many issues such as: starting business, dealing with the construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency which are main factors for the medium and small size enterprises.

The Doing of Business project includes two different types of information. The first one is related with readings of laws and regulations. Second is connected with time and motion indicators that count the efficiency in achieving regulatory aim. Ease of Doing Business index report is also directly related with the GCI report. Economies which are showing good results in EDB index also are performing well in GCI.

There is also a very important reason why EDB index is mostly concentrated on small and medium size companies. It is because of the fact that these enterprises are the key drivers of competition, growth and job creation, the development of economy.

The EDB methodology helps to hold a data which not only highlight the extent of specific regulatory barriers to business but also assesses what new reforms need to be done.

In order for better analyzes of Doing Business in Russia in 2011/2012 it will be also referred to the Doing Business in Russia 2012 report. Due to this report it is known that Moscow represents Doing of business project of Russia. According to the World Bank's Enterprise surveys, in 2009 Russia's managers spent about 20% of their time dealing with the government instructions and regulations almost double than the managers in 10 European Union emerging countries. According to the World Economic Forum 2011-2012 rankings, "Russia is in the bottom decile on the burden of government regulation, with its weak institutional framework cited as key obstacle to growth"(Doing Business in Russia report 2012, p. 1). Even though the laws and regulations do not prevent firms' possibility of entry and exit, it is still huge application and enforcement of rules, which strongly control the business.

What it is very important to observe, that there is huge difference between regions of Russia. More than 80% of the citizens' lives in the West part of Russia, and about 73% live in the cities. The concentration of economical activity is mainly concentrated around such big cities as Moscow and St.Petersburg: "Promoting small and medium-size firms as engine of growth, employment and revenue diversification have become focus of government policy. In 2010 the government invested 600 million euros in start-up grants, micro loans, support for youth entrepreneurship, and business training, and 140.000 jobs were created" (Doing Business in Russia report 2012, p. 1). Besides this fact of investing, still Russia can not compete with such leaders as Brazil, Turkey or USA. In order to improve and support the level and quality of business Russia's government made a strategy for 2020, that it is the year until economical development should be risen in a higher level and it should be promoted long-term investments and the small and medium size business should be boost significantly. Since 2011 Russia has the goal to make the country one of the most inviting places to do business for both: domestic and foreign investors: "the investment climate agenda includes comprehensive policy reforms ranging

from easing doing business to simplifying regulation, privatization, improving competition and supporting innovation”(Doing Business in Russia report 2012, p. 1).

From the global perspective in 2011/2012 Russia ranks in 120th position out of 183 economies on the ease of doing business. “Over the past 7 years, 163 economies have made regulation more business-friendly. Russia is among the 30 economies that improved the most. Since 2005 it has made 15 improvements across 9 indicators”(Doing Business in Russia report 2012, p. 2).

The EDB in Russia measures all aspects of business environment but it does not take into account such important indicators as security, macroeconomic stability, corruption, labor skills, infrastructure quality and institutional strength.

The indicators of Doing Business, especially in Russia, are dependent on the fact where entrepreneurs are focusing: formal or informal sector? There are noticed that in formal sector businessmen may spend more time on finding out what documents and procedures need to be done, but there is also a fact that these firms are working more effectively. On the other hand when regulations are too complicated some of the entrepreneurs turn to informality. This means that usually firms avoid legally required procedures (for example, not registering for social security). What is more informal sector usually grows heavily, also it has poorer to credit and accepts less workers in the business and they are not protected with the labor laws. More likely they are also not paying taxes. Such cases bring the particular policy changes. And this is where the Doing business indicators help for analyzes. “Most of the indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. **Doing Business in Russia in 2012** respondents both fill out written surveys and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance”(Doing Business in Russia 2012, p.11).

Due to the previous results of Doing business in Russia there have been made few methodological changes which mostly have been suggested by the client economies and they were incorporated into Doing Business in Russia 2012. One of the examples could be

that to start a business it is important to full fill minimum capital requirement. On the other hand it also could be an obstacle for very potential businessmen.

There are 10 pillars: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency i.e. closing a business. These pillars and give the opportunity evaluate Ease of Doing Business in Russia and other regions.

1. Starting a business

Doing Business records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business (Ease of Doing Business report 2012, p.42). This pillar includes such all important measurements as necessary licenses and permits, special required notifications. The legal form and registration of business is beneficial and matters a lot because besides the fact that legal institutions have better accessibility to different services and institutions it is also easier to establish firm's or company's capital. "Making the process of business incorporation easy also has broader benefit for the economy. Analysis found that simple business start-up is critical for fostering formal entrepreneurship"(Doing Business in Russia report 2012, p. 1).

In Russia Doing Business and its start-up are maintained by the 2001 law "On Registration of Legal Entities and Sole Proprietors. Russia is one of the countries that has single national database of registered companies and firms which are effective in the whole country. What is more, Russia's companies do not conserve a commercial name because they have unique registration number is enough. Also the company and tax registration are regulated by the Federal Tax Service that is why this institution is main counterpart in charge of business start-up.

In 2011/2012 in ease of Doing Business Russia is ranked in 111th place out of 183 economies. Comparing with the other BS-10 countries Russia has one of the lowest ranks. Because such countries as Georgia is ranked in 7th place, Armenia 10th place, Bulgaria

49th, Azerbaijan 18th, Romania 63rd, Turkey 61st, Moldova 88th. Only Ukraine and Greece have lower ranks.

This quite low rank of Russia is related to the fact, that in other countries it takes not so many procedures and days. In Russia it takes 9 procedures and 30 days to start a business and costs is 2% of income per capita.

The number of procedures which are need to be made in order to start a business here plays one of the main key role while we are analyzing the speed and possibility to start a business. Comparing with the BS-10 countries, one of the biggest amounts of procedures is in Russia. For example, in 2011/2012 in Armenia there are only 3 procedures, in Azerbaijan 6 procedures, in Bulgaria 4 procedures, in Georgia 2 procedures, in Moldova 7 procedures, in Romania 6 procedures, in Turkey 6 procedures. The others have more procedures or the same amount as Russia. BS-10 average reaches about 6.2 procedures. Comparing the number of procedures, which are need to be done in order to start a business, with the other regions it is obvious that in Russia it is much bigger quantity. The average of procedures in EU-27 is 5.6 procedures, in USA it is 6.0, Common independent States (CIS) it is 5.6, and in China it is bigger than in Russia and seeks the number of 14 procedures.

Procedures in the Ease of Doing Business index are described as interactions with the different external parties such as government departments, lawyers, and notaries. Procedures which need to be accomplished in the same building but in different offices are considered to be different procedures. Also if the business founders need to come back to the same office for separate procedures it is counted different type of procedures. Every electronic procedure is also counted separately. Such procedures which are required for correspondence or other special transactions with public agencies are also counted as separate ones for example as the case that there is a need for opening the bank account before registering for sales tax. "Only procedures required of all business are covered. Industry-specific procedures are excluded. For example procedures to comply with environmental regulations are included only when they apply to all businesses conducting general commercial or industrial activities. Procedures that the company undergoes to

connect to electricity, water, gas and waste disposal services are not included”(Ease of Doing Business index 2012, p.43).

The big number of procedures in Russia could be explained by the fact, that there a government plays huge role in every business step, and the fulfilling documents process requires many procedures which are done very slow and it shows the undeveloped bureaucracy level. According to the article from a magazine Russia Beyond the Headlines article “Bureaucracy or corruption. Two sides of the same coin”, the biggest problem of doing business in Russia is related with badly prosecuted bureaucracy system: “Russians seem to have thought up rules and regulations just for the sake of it. The problem with such nonsensical rules is that they inevitably lead to corrupt practices”(Stephen Dalziel, Russia Beyond the Headlines). Due to the 2009 data it was noticed that since 1999 to 2009 the number of civil servants were doubled, which explains why the bureaucracy system is still so lush. “Russia’s bureaucrats have a bad name in the country. With already rampant corruption increasing steadily in recent years, the government is now taking steps to boost their image“(The other Russia“ 2009). The different and wrong thing in Russia’s comparing with the other countries is that federal officials make about half of the whole number of officials while in other countries federal officials are two-six times less than regional and municipal. “The main problem is that the Russian state officials’ work is not effective and qualitative because of poor technical equipment (computers, phones) and low salaries. Another problem is a concentration of the functionaries in the central government system.”(Elena Rozhkova, Russia-ic).

One more measurement in pillar of Starting business is time. Ease of Doing business report says that time is recorded in calendar days. “The measure captures the median duration that incorporation lawyers indicate is necessary in practice to complete a procedure with minimum follow up with government agencies and no extra payments”(Ease of Doing Business Report 2012, p.8). The minimal amount of days to complete procedures is 1. The procedure is completed when the company or firm gets the final documents, for example company registration certificate or tax number. In this indicator time which entrepreneur spends on searching the information is not included.

Comparing with the other BS-10 countries Russia has highest amount of the days. To start a business in this country takes about 30 days, while in Armenia 8 days, in Greece 10

days, in Azerbaijan 8 days, in Bulgaria 18 days, in Georgia 2 days, in Moldova 9 days, in Romania 14 days, in Turkey 6 days, in Ukraine 24 days. The average of the BS-10 countries is 12.9 days. This is more than double less than in Russia. The number of days in USA is also quite small and reaches only 6 days, while in EU-27 there are 13.4 days, and in CIS there are 13.8 days. Only China has the number of 38 days.

The explanation of this prolonged time is the fact, that all institutions in Russia are regulated by the government, and because of low development level of education system, there are not enough professionals who can do their job very fast. The fact that in IEF report Russia also shows quite bad results in Easy of Doing business and it also plays a key role in this measurement. It means that it is complicated to start a business in the country.

The another one indicator which also is important for starting business pillar is Cost, which in Russia is 2% of income per capita. It includes all the official fees for legal service which are required by the law. Comparing with the other countries Russia is among the cheapest in the world. Lower-start up cost is related with an 8% increase of productivity from smaller and medium-size business in Russia.

And one more indicator is paid-in minimum capital. This is the measurement which counts what is the required amount of money from the entrepreneur who needs to deposit it into the bank. In 2012 in Russia each entrepreneur needs to have at least 10,000 rubbles. Half of this amount needs to be deposited before business registration. And the biggest problem is that this deposit is nominal and does not assure the protection for creditors.

Concluding analyzes of Starting business pillar it is important to recommend to Russia to pay more attention to Business freedom and to make procedures more easier and faster. In here it is important to take into account such factors as: government regulations, which are too wide, and that is why the procedures are so long and there are too many of them; also the level of educated specialist and the technologies are still too low in Russia, that is why Starting business takes long time. Undeveloped bureaucracy system here plays the key role, because it takes into account all the factors which were named before. That is why the entrepreneurs in Russia still do have problems to start a business faster. The last but not the least reason which urgently needs to be reformed is corruption level, which is very high in the country. In order to solve the corruption problem the Government should pay

more attention to economical crimes, bribery problem, illegal registrations of business or other illegal economical practices. Also the judicial independence needs to be improved, in order to have independent and not corrupted law system.

Due to the Doing Business in Russia 2012 report, in order to quicken the work of institutions it is important to replace paper registration certificates with electronic notifications. In Russia entrepreneurs need to visit more than 5 institutions in order to register their business. Company and tax registration should be allowed electronically. “Regulation should be issued to legitimize online information to ensure that paper copies are no longer needed”(Doing Business in Russia 2012, p. 17).

Another important thing for the fastest business registration could be simplified signatures and documentary system. Because even with the electronic signature entrepreneurs need to notarize their signatures. The possibility to register company without visiting government or notary would be a huge improvement in start-up of business: “the Russian government should implement an online one-stop shop as a single virtual interface for entrepreneurs”(Doing Business in Russia 2012, p. 17).

One more advice would be for a company to make seal optional. It means that an official seal could confirm the legality of company’s contacts and documents, but seals also could be replaced by electronic signatures, which are more reliable. Due to the Doing Business in Russia 2012 report, it is special law on electronic signatures, but it is lagging. And if it works normally it would save much of entrepreneur’s time and costs and also it would make documents safer because it would be harder to falsify them.

It is also recommended not require from entrepreneurs to inform government agencies about opening the new bank accounts: “Article 23 of the Tax Code requires that the entrepreneur or company notify the tax authorities within 7 days of opening or closing the bank account. Article 86 also obliges banks to inform the tax authorities about the opening or closing of the bank accounts in 5 days”(Doing Business in Russia 2012, p. 18). This is kind of double procedure which makes troubles to entrepreneurs, especially if they need to do it in person. Banks could have a right to inform the tax authorities online so that the entrepreneurs could be free from this procedure.

These kinds of policy recommendations could help for Russia to improve it's not only the start-up of business level, but also it would make a huge impact to the whole evaluation of Doing Business.

2. Dealing with the construction permit

In order to measure the ease of dealing with the construction permits, Doing Business takes and counts small and medium-size business which need to obtain all the necessary approvals to start commercial warehouse and connect it to the electricity, water, fixed telephones and all the other important procedures. Time, cost, and procedures are the most important indicators to evaluate this pillar. The time is divided in several stages: preconstruction, construction and post construction and utilities, each of these stages has the number of procedures which are need to be done. This analysis takes into account all types of inspections, certificates, building plans, site maps, and other permissions before, during and after construction of the warehouse.

Good quality and regulations of construction matters a lot because of the public and workers safety. Here also matters the speed of dealing with the construction permits, because it brings the good score for the economy of this pillar, what makes it more competitive and business oriented.

“Since 2002 Russia’s construction industry has been the most profitable after oil and gas. At the height of its activity in 2008, the construction sector employed 8% of Russia’s workers and generated 6.3% of GDP”(Doing Business in Russia 2012, p. 19). The difficult times came after the 2008/2009 after the crisis. About 80% of construction projects were frozen and any new project was implemented. The problem in Russia is that 60-80% of building projects are still undertaken without right and proper approvals and permit documents.

In 2011/2012 in the pillar of Dealing with the construction permit Russia is ranked in 178th place, out of 183 economies. During the same year other BS-10 countries had much higher rank, except Ukraine, which is ranked in 18th place. Such countries as Georgia ranked in

4th position, Greece in 41st position and Armenia in 57th position, show quite positive results, while other BS-10 countries have very close positions as Russia, while USA has the rank of 17th.

In this pillar procedures and the time which is used to complete the procedure. Comparing with the other regions and countries it is obvious, that to deal with construction permits is the most difficult in Russia. It is very complicated because here the entrepreneur needs to make about 51 procedures. Fewer procedures are required in such BS-10 countries as Armenia (18), Greece (14), Azerbaijan (30), Bulgaria (23), Georgia (9), Moldova (27), Romania (16), Turkey (24) and Ukraine (21). The average of BS-10 countries reaches the number of 23.3 procedures, which is more than double less than in Russia. This fact shows that there are many obstacles and requirements which need to be overcome in order to get these permits.

What is more, comparing with the USA where to get permission for the constructions entrepreneurs need 15 procedures, EU-27 needs 15 procedures, in China 33 procedures in CIS 23,6 procedures. By all means it is obvious that the level of corruption is really high in Russia, if it takes so many procedures. Also the problem is that the rule of law is strictly supervised by government what basically means that nothing can happen without its power, even the private business.

While talking about the indicators of Dealing with the construction permits it is also important to mention such a fact for how many days it takes to deal with this issue. In Russia it takes more than a year what means 423 days, while in other BS-10 countries it takes much less like in Georgia 74 days, in Armenia 79 days. Such countries as Ukraine with the 375 days and Moldova with 291 days are closer to Russia's result, but in any way nowhere in this region it takes so long to get a permission of construction completeness. The average of BS-10 are 222 days, while in USA it is only 26 days, in EU-27 189.1 days, in China 311 days, in CIS 217 days. Probably quite high amount of days in EU-27 is surprising, but it is important to notice that such countries as Romania with 287 days process and Bulgaria with the process of 120 days and Greece with the process of 169 days are also included in EU number of days.

The biggest problem of such a long time of procedures depends how effectively the government and its departments are working. Because of the slow and not very well

developed and slow bureaucracy system it takes too long in Russia to deal for construction permits. There are some other problems as the educational problems and too wide supervision of the government. Also corruption and bribery plays kind of a big role in this area, because as it was mentioned in GCI of Russia analyses, this country is one of the most corrupted in the world. What is more, there are very limited possibilities online by internet, so that that they can not be confirmed automatically.

One of the recommendations could be “to create an electronic platform where the applicants for building permits can apply for all technical conditions simultaneously by submitting one online form along with final drawings. Once of this infrastructure is created, it could be used to issue other documents such as building and occupancy permits”(Doing Business in Russia 2012, p.24).

One more solution to make the processes faster is to establish a risk-based system for technical reviews, inspections and conformity assessment. This approach could define simple projects on early stages and then it could be taken more time for the complex and difficult projects. “While Russian legislation takes a risk – based approach during construction – eliminating the need for low-risk projects to undergo state supervision and inspections – this practice could be further expanded to preconstruction”(Doing Business in Russia 2012, p.24).

All in all there are not only very specific cases which have to be done in order to make Dealing with the constructions permission easier, but also it is common country’s problems such as corruption, slow bureaucracy processes, very small number of very well educated professional specialists and of course too strict and too complicated supervision of government and not developed technologies what concerns online signatures and documents’ filling.

3. Getting electricity

“Doing Business records all procedures for a business to obtain a permanent electricity connection and supply for a standardized warehouse. These procedures include

applications and contracts with electricity utilities, all necessary inspections and clearances from the utility and other agencies and the external and final connection works”(Ease of Doing business index 2012, p. 45).

This pillar takes into account all the procedures, time and cost which need to be taken in order to get electricity for a medium-size or small business. It is very important for standard warehouse to have legalized electricity. The warehouse should take a place in the city where is the largest business city, in this place the electricity is the highest level. “Around the world, electricity connections are provided by distribution utilities that often retain monopolistic positions even in otherwise liberalized electricity markets”(Ease of Doing Business index 2012, p.2), because of this smaller business and other electricity’s users has little choice.

Getting electricity matters a lot because any kind of business is strongly related with this service. According to the World Bank research says that low-managers in 109 countries, 71 of them lower income economies affirm electricity to be among the biggest obstacles for the well developed business. Poor electricity affects the production, its quality and quantity and also investment into them. According to economics scholars, if Eastern Europe and Asia increase possibility to get electricity, it would increase GDP by 0.5%. What is more, the quality of the electricity also needs to be proper. Very important indicator is to get the connection to electricity, because otherwise there are many losses of the business level.

In 2011 in Russia utilities were connected to the electricity grid by almost double applicants as they did in 2008. Even though it remained still a huge problem in Russia. By Getting electricity in 2012 Russia is ranked in the last 183rd place. Comparing with the other BS-10 countries it is visible, that all of them also have quite limited amount of electricity. By this pillar Georgia is ranked in 89th place, Armenia in 150th place, Bulgaria in 133rd place, Azerbaijan in 173rd place, Romania in 165th place, Turkey in 72nd place, Moldova in 160th place, Greece in 77th place, Ukraine in 169th place. USA due to this pillar is ranked in 17th place. Taking into account the size of the countries it is possible to say that the size of the country make the obstacles to build electricity wires, but while we are looking to the USA and let's say Turkey's or Ukraine's size it is obvious that the size of the country plays a role, but not very big one. On the other hand in Russia's case it could be

an explanation that the country is the biggest in the world and there are regions fully covered by ice where no people live there. To examine better the situation and the Russia's case it is better to look through how many procedures and days it takes to get electricity in mentioned countries and regions. Comparing Russia's number of procedures and days with the other regions like China, USA, EU-27 and CIS it is obvious that in this pillar Russia has really low rank, because it has the biggest amount of procedures which reaches the number of 10 and it takes 281 days to get electricity.

“Procedure is defined as interaction of the company's employees or its main electrician electrical engineer with external parties such as the electricity distribution utility, electricity supply utilities, government agencies, electrical contractors and electrical firms”(Ease of Doing Business Report 2012, p.46). In Russia as it was mentioned it needs to be done 10 procedures, while in USA there are 4 procedures, in EU-27 average 5 procedures, China 5 procedures, in CIS about 7 procedures. These results show that in Russia again is long and slow, and complicated bureaucracy process, which makes difficulties to entrepreneurs to get electricity.

As well as it takes quite a lot of procedures, it takes and long time in Russia to get electricity. In here there are about 281 days, while in China it is 145 days, in USA it takes 68 days; EU-27 average is about 131 days and the average of CIS 205 days, the average of BS-10 reaches 176 days, which is much smaller than in Russia. “Time” indicator is kind of a measurement which captures the median duration that “electricity utility and experts indicate is necessary in practice, rather than required by law, to complete a procedure with minimum follow-up and no extra payments” (ease of Doing Business report 2012, Getting Electricity, p.9). It is also agreed that minimum day to make one procedure to get electricity is 1 day. Several procedures can not be done in the same day.

The procedures are these: 1. submit an application for an electricity connection to the local office of MOESK and await technical conditions – takes 30 calendar days, 2. Await completion of the external connection design and its approval by a specialized private electrical design firm – 90 calendar days, 3. Customer obtains an excavation permit at the Directorate for Public Services of the District – 30 calendar days, 4. Await completion of the external connection works by a private electrical contractor – 37 calendar days, 5. Obtain from MOESK a document on the completion of external connection works

according to technical conditions – 14 calendar days, 6. Await inspection of the meter by Energosbyt – 12 calendar days, 7. Obtain a questionnaire of consumer of electrical energy at the department of transportation of energy at the local office MOESK – 3 calendar days, 8. Await physical/actual connection by the utility and sign a contract dividing responsibilities for maintenance and ownership of the line – 14 calendar days, 9. Await and obtain an inspection by Rostekhnadzor (Technical Inspectorate of Russia) – 30 calendar days, 10. Sign a supply contract with Mosenergosbyt (Supply Company) and await final connection – 21 calendar days.

In conclusion the policy recommendation in order to raise the results of this pillar would be to shorten the time for each procedure to complete, what basically means to hire more employees in the regulation sphere or to hire more qualified specialist in order to make the process shorter. Secondly it would be better to look through the law system what means to analyze the rule of law regulatory indicators if it is possible to make the changes in the rules in order to shorten the days' quantity.

What is more, it is also very important to make a design approval not that much complicated. “The most complex, time consuming procedure in getting an electricity connection is obtaining approvals of the connection design from all relevant agencies, including the distribution utility, the department of architecture and construction, the energy inspectorate in some cases, the retail electric supplier and in many cases other organizations, like the water and gas utilities and the telephone company”(Doing business in Russia 2012, p.29). There would be the solution to have all the different and needful agencies in one building or big-sized room in order to save time.

Other one recommendation could be to simplify inspection and documentation after electricity connection works are completed. The problem is that when the connection works are finished, customers still must have 3-5 extra procedures before to supply contracts are signed and the electricity begins to flow. Also it would be important to make a strict review and streamlining of inspectorates. Moreover it would be very useful to make fees transparent in order to let the customers understand what they are paying for. It is very important to ashore the uncorrupted ant clear process in order to have more effective procedures.

4. Registering property

Registering property issue is very important because of the support of investment, growth of business and productivity. Land, buildings at possibility to have accurate information matters about 75% of business wealth. “Entrepreneurs with formal land titles have a better chance of getting credit when using their property as collateral. Efficient property registration systems also can raise tax revenues”(Doing business in Russia 2012, p.31).

Registering property measures how is transferred the property from the one status to another one what means that the property gets its owners name. This process starts by fulfilling the needful documents such as encumbrance’s certificate or copy of the seller’s title. Each procedure which is required by law is included; all the details such as responsibility factor or the third part’s agreement are also included. In recent years in Russia it was made the regulation changes that allowed registering property easier was setting fixed transfer fees.

In Russia in 2008 the law organized the Federal Service of registration, Cadastre and Cartography *Rosreestr*, what was taking into account management of ownership registration and cadastre. Since 2009 cadastral information on buildings was transferred to *Rosreestr*. Because of these changes the process itself became easier and the information was able to found in one place. Maybe these changes affected the regulation in Russia that is why comparing with the other pillars in this one Russia shows better results.

In 2011/2012 in registering property pillar Russia is ranked in 45th position, while other Black Sea countries such as Bulgaria (rank of 66th), Romania (rank of 77th), Greece (rank of 150th), and Ukraine (rank 166th) had much lower positions. Such countries as Georgia (ranked in 1st place), Armenia (ranked in 5th place), Azerbaijan (ranked in 9th place), Turkey (ranked in 44th place), Moldova (ranked in 18th place). All the results are made by the evaluation of how many procedures and time do request this process of registering property.

In 2011/2012 in Russia to register property it takes 5 procedures. Less procedure there are in such countries as: Armenia – 3, Azerbaijan – 4, Georgia – 1, Moldova has also the same 5 procedures. The BS-10 countries' average is 6.1 procedures. What is more EU-27 average is 5.2 procedures, in USA there are 4 procedures, in China there are also 4 procedures, in CIS the average is 5.1 procedures. As it is visible there are still more procedures in Russia than in any other region, except CIS. "Procedures are defined as interaction of the buyer or the seller, their agents or the property with external parties, including government agencies, inspectors, notaries, lawyers"(Ease of Doing Business report 2012, Registering property, p.7). All the legal procedures are recorded even though in some cases it could be some changes.

Another one important indicator is Time. To register property in Russia in 2011/2012 it takes 43 days, and it is one of the longest process in Black Sea region despite the Ukraine where it takes 117 days. Even though it is not the biggest amount of procedures that are in Russia it takes really long comparing to the other countries. What is more in EU-27 region it takes for about 30,8 days to register a property, in USA 12 days, in China 29 days, in CIS region average is about 30,5 days and in BS-10 region the average is 25 days. These results also show that comparing with the other regions Russia is absolutely not competitive. Time is counted by days and is measured due to the duration it takes to complete all the documents in different institutions. According to **International Property Rights index of 2012** in global rank with the score of 8.6 Russia is ranked in 47th position out of 130 countries. This result also shows that besides the fact that is quite complicated to register property in Russia, this process is still developing that leads to the conclusion that the business registration started to move in Russia. Also this pillar's results also make a good impact to the common Ease of Doing business index of Russia.

In order to improve this pillar more it should be done some changes in Rosreestr process. This procedure should be expedited and what is more it should be made faster procedures for property registration. "Agencies should better plan staffing resources based on assessments of transaction volumes and staff productivity to complete registration of property rights in less time"(Doing Business in Russia 2012, p. 34).

Another opportunity would be to establish special higher fees for those who want the procedures to be finished faster. This would benefit not only for the entrepreneurs but also

for the country's budget because it will be collected more money. Also it allows for registering institution to prioritize their job.

One more solution and policy recommendation would be to continue integrating land and building cadastres and registries in Rosreestr across different regions. The problem in Russia is that all procedures are made in one main central regulation institution. There is any possibility to full fill documents electronically so that the process itself would be faster. "Russia has combined the functions of multiple agencies responsible for land cadastral and real estate rights into one agency, the Rosreestr continues to centralize all information in all regions. To strengthen connectivity between agencies, the country should continue to work on a unified database for records to allow for easier, quicker access to vital information to ensure title security"(Doing Business in Russia 2012, p. 34). Connecting the Rosreestr and Commercial Registry could also take away the need for entrepreneurs to make double procedures to get a company's property confirmation.

In order to quicken the process and procedures of Registering Property it would be easier for businessmen to master an electronic real estate registration. The good quality of the computer system at cadastres and registries would benefit for making information available through the internet. "The Rosreestr could promote electronic submission of state registration for transfer of property rights"(Doing Business in Russia 2012, p. 34-35).

One more obstacle for faster registration of property is that there are required not original documents but the notarized copies. This process again cost time to transfer and to stamp the new copies.

In conclusion, these recommendations were proposed in order to lessen the time of registering property, but also the number of procedures, because they could be simplified in order to make the process easier and then more entrepreneurs will start to think of spreading and developing their business which will bring the benefit to the country as well.

5. Getting credit

Doing business takes into account two very important measurements which are related with the finance system and improvement of it: credit information registries and legal rights of borrowers and lenders in secured transactions and bankruptcy laws. “The 2 types of institutions are measured by 2 sets of indicators. The first set of indicators analyzes the legal framework for secured transactions by looking at how well collateral and bankruptcy laws facilitate lending. The second set of indicators looks at the coverage, scope and quality of credit information available through public credit registries and private credit bureaus”(Ease of doing business index 2012 report, Getting credit, p. 1). The ease of getting credit is dependent on such issues as: the depth of credit information index and strength of legal rights index.

“The data on legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral bankruptcy laws. The survey data are confirmed through teleconference calls or on-site visits in all economies”(Ease of doing business index 2012 report, p.48).

Strength of legal rights index counts a degree to which collateral and bankruptcy laws are able to protect the rights of those who are borrowing and lending money this is the regulation which facilitates this process of credit delivering. Comparing with the previous year in 2012 Russia has not changed its score of Strength of legal rights index and it remained with the score of 3 out of 10. The results show that this measurement is still very weak in Russia and legal rights are not that strong. These unwarranted rights could be a result of high level corruption and bribery system in Russia.

Credit information takes into account such factors as confirmation of the presence of a public credit registry or private credit bureau and survey of the public credit registry’s or private credit bureau’s structure. The depth of credit information index calculate rules and practices which are affecting the size and possibility to access the credit information or for public credit registration or a private credit bureau. In Russia Depth of credit information index in 2011/2012 was 5 out of 6. At the same time public registry coverage is 0% of

adults and private bureau coverage is 35.8% of adults. Besides these results Russia has one of the best practices allowing out-of court enforcement.

In 2011/2012 Russia has the rank of 98th in the pillar of Getting credit. It is the worst performance between the all BS-10 countries. Some of the BS-10 countries such as Georgia, Romania and Bulgaria have the ranks of 8th position, while USA has the rank of 4th position.

The recommendation for Russia's economy for this pillar would be for the law to allow businesses to grant a non possessor security right in a single category of movable assets, without requiring a specific description of collateral; security right should extend to future or after-acquired assets, and should extend it automatically to the products, proceeds or replacements of the original assets; a collateral registry in operation should be with an electronic database indexed by debtor's name; secured creditors should pay first before a debtor defaults outside an insolvency procedure also when the business is liquidated.

6. Protecting investors

“Doing Business measures the strength of legal protections of minority investors against misuse of corporate assets by company directors for their personal again”(Ease of Doing Business index 2012 report, Protecting investors, p.1).

There are 3 indicators, which helps to analyze the Protecting investors pillar: rules on the approval and disclosure of related-party transactions (extent of disclosure index), liability of company executives for self-dealing (extent of director liability index), shareholders' ability to access corporate information before and during litigation (ease of shareholder suits index) and there also it is the average index of all before mentioned indicators which is called strength of investor protection index. It is very important to protect investors, because it brings perfect environment for market and also it guarantees companies' financial health. To protect investors is also important because of the possibilities of companies to raise the capital which is urgent for the growing process. Also it is important for innovations, diversification and of course for competition. If the investors will not be

protected it is possible that the equity markets fail to develop, also banks become only source of the financing process what means most probably the monopoly (at least in Russia's case, because it is known the strong central bank system control). Economies which have diversity capital markets usually try effectively protect investors. "In these economies investors receive financial information they can trust, they participate in major decisions of the company, and directors are accountable for their managerial decisions"(Ease of Doing Business index 2012 report, Protecting investors, p.2). What is more, it is very important to provide investors with the proper and reliable information so that they could participate in managing the company. For this issue should be responsible also the director of the company. His duties and accountability should help investors to have all the useful information. So that directors need to have very strong rules in order to full fill all requirements.

In 2011/2012 Russia of Protecting investors has the rank of 111 out of 183 economies. Talking about BS-10 region Russia has the same rank as Moldova and Ukraine and it is one of the lowest ranks in BS-10 region. Lower rank is only of Greece, this economy is ranked in 155th place. USA has incredibly good ranking position (5th place). In order to explain why Russia has such bad results in this pillar it is better to look at the indicators which were described before.

Extent of disclosure is evaluated with the score of 6 out of 10. It means that rules on the approval and disclosure of related-party transactions are not that strong and faithful. This also could be related with the high bribery and corruption level, which actually affects all the bureaucracy and especially business sector. Ease of shareholder index also has the score of 6 out of 10. This means the shareholders ability to access the documents and the information before and during the trial. In Russia the result is more that moderate what means that the shareholders still have problems to access documents especially during the litigation process.

One of the biggest problems of this pillar is Extent of director liability index. It is has the score only 2 out of 10. This means that in Russia the directors of the companies are not liable to the investors, that they are hiding information and incomes and are holding "black accountancy". The strength of investor protection index has the average score of 4.7 out of 10, which globally is quite low. These results lead to the conclusion that in Russia

investors are badly protected and that is why there are not easy to establish new companies. Because investors do not trust the system of Russia's companies' managing when the directors are not responsible for what they are doing and even more they are not liable for those who are funding new companies or firms.

In order to strengthened investor protections Russia should adopt new rules which would require shareholder's approval of large related-party transaction. Also it could be arranged a law which would facilitate access to corporate information for majority investors. What is more it could be made a procedure code that facilitates access to corporate documentary evidence during the trial process and lets to give direct questions of parties in a commercial trial. In addition there also could be a solution to define how much company's director should be liable to the investors.

7. Paying taxes

Doing Business takes measures the taxes and essential contributions that medium-sized companies must pay in a year and records administrative taxes and contributions as well. This is counted according 3 measurements such as: payments, time and total tax rate borne by a case study firm in a given year. There are also 3 most important types of taxes: profit taxes, consumption taxes, labor taxes and mandatory contributions. What is more the methodology of taxes comparison looks at the statutory incidence of taxes. It includes all taxes and contributions that certain firms are committed to pay. It is explained that all the tax burdens are shared among the owners, customers, workers, and investors or suppliers of the firm, is not that only the firm itself pays taxes.

The taxation process is very important to each country's government. The most important thing for government is the need of revenue, so that is very important correctly to choose tax base and tax rates. If the taxation system is very complicated it can discourage the payers from making it. That is why in some countries tax administration and management are huge obstacles for business.

“The size of tax cost for business matters for investment and growth. Where taxes are high, business are more inclined to opt out of the formal sector”(Ease of Doing Business index 2012 report, Paying taxes, p.2). It is better to keep tax rates at a reasonable level, because it helps to develop for the private sector. This issue is very important to a small size and medium-size businesses, which better assigns money to the growth of business and job creations but do not add more to the tax revenue. Also every enterprise is concerned about what they get for the taxes. Extensive and effective infrastructure is one of the key issues for the benefit of economy because it determines all the activity which will be made.

For the business is also important how the tax revenue is used for the wealth of society. For example how much it is given to health, primary education, higher education and trainings, because it is related with the benefit to business development as well.

Also in this case it matters a lot the tax administration because it can help business to become formally registered what means a benefit to the whole economy because it helps to increase the tax revenues. “The compliance with tax laws is important to keep the system working for all and to support the programs and services that improve lives”(Ease of Doing Business index 2012 report, Paying taxes, p.3). Very much complicated tax systems are related with the high evasion and corruption, what means more informal sectors and less investment. “Compliance tends to take less time in economies where value added tax is administered by the same tax authority as the one that deals with corporate income tax. The online use of filling documents and paying taxes reduces compliance time.

In 2011/2012 due to the pillar of paying taxes Russia is ranked in 105th position out of 183 economies. This is one of the worst results comparing with other BS-10 countries, because Georgia is ranked in 42nd position, Bulgaria in 69th, Azerbaijan in 81st, Turkey in 79th, Moldova and Greece in 83rd. Of course there are countries in a Black sea region and with the worst ranks than Russia, for example Ukraine which is ranked in 181st place, Romania in 154th, and Armenia in 153rd. USA also comparing with the other in paying taxes pillar also shows quite bad results with the rank of 72nd position.

In order to analyze the ranks better it is very important to have a look at such indicators as paying taxes procedures’ amount and of course the paying taxes time. Tax payments indicator calculates the number of taxes, the method of payment, the frequency of filling

and the number of agencies involved. “The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size business, the tax is counted as paid a year even if filings and payments are more frequent”(Ease of Doing Business index 2012 report, Paying taxes, p.8-9).

To compare tax payments per year in Russia and other BS-10 countries it is visible that Russia has one of the smallest amounts of taxes. In 2011/2012 in Russia it was registered 9 tax payments per year, while for example in Ukraine it is 135 payments and in Romania 113 payments per year. On the other hand in Georgia there are only 4 taxes payments. The average of BS-10 countries are 40.3 payments per year, while in EU-27 there are much less only 16.9 payments per year, in USA 11, in China even less than in Russia, only 7, in CIS the average is 39.7 tax payments.

Another one important measurement is time, which is counted hours per year, what means how long it was taken to pay taxes. In this pillar contrary like in others the time which is taken for preparation for payment is included: “if the separate accounting books must be kept for a tax purposes – or separate calculations made – the time associated with these processes is included”(Ease of Doing Business index 2012 report, Paying taxes, p.9).

In 2011/2012 in Russia it takes 290 hours per year to pay taxes. Less hours it takes in such BS-10 countries as Greece 224 hours, Azerbaijan 225, Moldova 228, Romania 222 and Turkey 223. In other countries of Black sea region it is required more time to precede all payments of taxes. The BS-10 average reaches 346 hours per year to pay taxes. In EU-27 there are much less hours and it is counted about 208.8 hours of paying taxes, in USA there are 187 hours, in China 398 and in CIS 330 hours. The total tax rate in Russia is around 46.9% of profit what means that this result shows the total amount of taxes sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions.

In order to simplify the taxes payment it is obvious that there should be introduced or enhanced electronic system, also some of them could be merged or eliminated or just incorporated as part of other payments. Even though, as it was compared with other regions the number of procedures are not that big problem as time, spend in order to pay taxes.

What is more it could be implemented electronic system which will benefit for both tax authorities and firms. “For tax authorities, electronic filing lightens the workload and reduces operational costs – such as the cost of processing, storing, and handling tax returns. At the same time it increases tax compliance and saves time” Ease of Doing Business index 2012 report, Paying taxes, p.5), which is very important for business. For tax payers as well it helps to save time and lessens calculation error on tax returns. What is more it would become easier to prepare the documents and files. However it is one more complication – government needs to educate the tax payers to make procedures online. It also cost money and time, but it would benefit in a while. Also there could a solution of adopting self-assessment for a tax collection. This tool is very effective in very well economically and technologically developed countries. Due to this taxpayers have their own liability which is based on the law to pay a correct amount.

8. Trading across borders

“Doing business measures the time and cost associated with exporting and importing by ocean transport and the number of documents necessary to complete the transaction”(Ease of Doing Business index 2012 report, Trading across borders, p.1). The measurements takes into account all the possible documents not only before the transportation but also required at ports as well. It is also taken into account the logistics before the port what basically means inland transport, because it also includes time and cost. There is noticed one important rule: if the transportation is much time consuming and very expensive, there will be more difficulties for local firms and companies to be competitive and to reach international market. After the contractual agreement is signed there several procedures to be done later: exporting company prepares all required documents and submits them to the responsible authority, getting credit for the transition is also included; then exporters prepares all the goods to be packed into container and orders a transport to the port. What is more, the goods need to be approved by such institutions for example as health ministry.

Many export companies have the special agents who are dealing with all the documentary procedures. This is also counted as the cost which is measured by Doing Business.

Easier trading through the borders usually brings the huge benefit to medium or small-sized companies especially if they can develop their business in other markets with the lower costs for governing company than on local country. Trade also helps to develop a company and to be a part of global supply chains. It is obvious that international trade helps for economies to grow and improve the global country's level of economy.

In 2011/2012 in the pillar of trading across the borders Russia has the rank 160th out of 183 economies. It is one of the worst performers in the Black Sea region. With lower rank is in Azerbaijan which is placed in 170th position. Other countries have better ranks: Georgia 54th, Armenia 104th, Bulgaria 91st, Romania 72nd, Turkey 80th, Moldova 134th, Greece 84th, Ukraine 140th. Meanwhile well economic developed USA is ranked in 20th position.

In order to analyze and compare Russia's position of trade across the borders it is better to look through such measurements as needed documents for export and import and also how much time it takes to complete trade from one country to another.

To export the goods from Russia it is needed to prepare 8 documents and in to import in Russia it requires 10 documents. The same number of required documents is only in Azerbaijan; all other countries can import and export their goods with lesser amount of documents. For example in other countries as Armenia for export are required 5 documents, import – 8 documents; Georgia export – 4 documents, import – 4 documents. The average of BS-10 countries needed documents for export are 5.9, and for import – 7.3. Meanwhile in EU-27 for export are required the average of 4.6 documents and for import 5.3 documents, in USA there are 4 documents for export and 5 documents for import, in China 8 documents for export and 5 for import, and CIS average for exports are 7.7 documents and for imports 8.8 documents.

The problem why Russia has so closed borders and difficulties to pass them. One of the problems is required strict visa regime which is needed not only for goods but also for persons. Also here

One of the key roles plays the fact that Trade Freedom (IEF) has very low score comparing with the other regions. This basically means that there are huge tariff barriers for exporting and importing goods and trade weighted average tariff has a rate which in 2012 reached 10.3 percent. Comparing with EU, it is only 1.4 percent. More over, there is expansion of bureaucratic non-tariff flow of goods and services which basically damages all economy system, what means those procedures and documentation.

The other measurement of this pillar Trading across the borders is Time to export or Time to import which is counted by the days. In Russia to export good takes 36 days, same number of days is needed to import the goods. In BS-10 countries to export and import commodities takes longer only in Azerbaijan: 38 days for export and 42 days for import. In other countries it takes much less time: Armenia - 13 days export, 18 days import; Greece – 20 days export, 25 days import; Bulgaria – 21 days export, 17 days import, Georgia – 10 days export, 13 days import, Moldova – 32 export, 35 days import, Romania – 12 days export, 13 days import, Turkey – 14 export, 15 days import and Ukraine – 30 days export, 33 days import. BS-10 average is counted as 22.6 days for export, and 24.7 days for import.

Other time is calculated in EU-27, here it is needed almost double less time than in BS-10. In EU-27 there are 11.3 days for export and 11.6 days for import. In USA the amount of days is even lower, for export it is needed 6 days and for import 5 days. In China it takes 21 days for export and 24 for import. In CIS average is 42.7 days for export and 46.9 days for import.

As it is visible from the results this measurement of trading across borders shows many stagnancy of international Russia's economy. This is also a reason why many foreign investors do not want to open their companies' branches in Russia. These high requirements for transition across borders weakened all the economy and business.

Due to the Global Enabling Trade Report of 2012 (GET 2012) the biggest problems in Russia of exporting are these: inappropriate production technology and skills, technical requirements and standards abroad, difficulties in meeting quality/quantity requirements of buyers, identifying potential markets and buyers, burdensome procedures and corruption at foreign borders, access to imported inputs at competitive prices, high cost or delays

caused by domestic transportation, access to trade finance, high cost or delays caused by international transportation, rules of origin requirements abroad.

The recommendations for Russia to raise the number of exports it is very important to lessen the cost of exports, also take care about the bureaucracy complex and procedures that should be done before trading across the borders. What is more there is still high level of corruption, so that smaller companies are unable to produce their good through borders into other countries. It also should be lessen the cost of delays by international transport.

What concerns imports cases, due to GET the problematic factors are these: corruption at the border, tariffs and non-tariff barriers, burdensome import procedures, crime and theft, high cost or delays caused by domestic transportation, domestic technical requirements and standards, inappropriate telecommunications infrastructure, high cost or delays caused by international transportation. In order to raise the amount of importers and foreign investments and to bring new goods in to the country it is important to reduce the level of corruption at the borders, also lessen the crimes and thefts, it also should be adopted better regulations of tariffs and non-tariff rates.

In conclusion, considering other countries practice it is very important to mention that it is worth to adopt electronic system for fulfilling documents, transferring, and exchanging customs information. This helps to manage the flows of information and also helps for the traders to have faster access to the needed documents and forms. These effective changes would save not only time but money as well, because there will not be the need of physical being, so the transportation of the persons because of this will not be counted as the trade cost. Russia already has reduced number of needed trade documents but comparing with the other countries it could be less. In addition it could be improved procedures in the ports. For this there is a need for higher qualification workers. Improved customs administration and improved risk-based inspections quality also would raise a possibility to trade across the borders.

9. Enforcing contracts

“Indicators of enforcing contracts measure the efficiency of the judicial system in resolving commercial dispute. The data are built by following the step-by-step evolution of a commercial sale dispute before local courts”(Ease of Doing Business report 2012, Enforcing contracts, p.8). Courts are very important for the businessmen because it helps to protect economic rights and markets. “Efficient and transparent courts encourage new business relationships because business know they can rely on the courts if a new consumer fails to pay”(Ease of Doing Business report 2012, Enforcing contracts, p. 1). For a small business it is especially important fast trials because sometimes smaller businesses do not have enough resources to wait the results of long proceeded courts. After the study of the Eastern Europe countries it was made an out come that if the courts are slow, firms tend to have less finance from the banks for a new investments and this is why whole system could get into slowdown.

In 2011/2012 in Enforcing contracts pillar Russia is ranked in 13th position which is the best result of all EDB index. Even more in this pillar Russia shows the best result in all BS-10 region, because Georgia is ranked in 41st position, Armenia in 91st, Bulgaria 87th, Azerbaijan 25th, Romania 56th, Turkey 51st, Moldova 26th, Greece 90th, Ukraine 44th. The USA has much higher rank than any of the BS-10 countries. It is ranked in 7th place out of 183 economies.

In order to give better analysis how countries are enforcing contracts it is very important to look how many procedures and how much time it takes for the final out come.

In Russia to enforce a contract it is needed of 36 procedures. “A procedure is defined as any interaction, required by law or commonly used in practice, between them and the judge or court officer”(Ease of Doing Business report 2012, Enforcing contracts, p. 8). Meanwhile in other BS-10 countries the amount of procedures is quite similar, only in Armenia it is required 49 procedures. In Greece, Azerbaijan, Bulgaria it is required 39 procedures, in Georgia and Turkey – 36, in Moldova and Ukraine – 30 and in Romania – 31. The BS-10 average of required procedures is 36.5. Meanwhile in EU-27 there are

required about 32 procedures, in USA 32, in China 34 and in CIS same as in Russia 36 procedures.

The rank of Russia shows that the courts are quite fast regulated and that most of the contracts are signed and proceeded and that the court reform are made in a right way. Even though there are a huge supervision from the government what concerns and involves courts are solved quite effectively. In 2011/2012 in Russia it was introduced computerized case management system which made court work easier. What is more, in 2007 “in order to address the needs of its increasingly complex market economy, Russia created arbitration courts and forums for alternative dispute resolution. It also attempted to improve the financial condition of the courts, reduce corruption, and ensure prompt enforcement”(Business Climate Legal and Institutional reform, Issue 10, p. 1). This was one of the reasons why the pillar of Enforcing contracts started to show better results. What it was done: established arbitration courts and revised arbitration procedures; created alternative forums for resolution of commercial disputes; improved the financial conditions of the court, introduced anticorruption measures and ensured enforcement of judicial decisions.

Another one measurement of Enforcing contracts is the Time. “Time is recorded in calendar days, counted from the moment in the plaintiff decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between”(Ease of Doing Business report 2012, Enforcing contracts, p.8). To enforce contracts in Russia it takes relatively little – only 281 days, while in other BS-10 countries it takes much longer. For example in Greece it takes 819 days, in Bulgaria 564 days a bit less than in Russia it takes in Azerbaijan 237 days. BS-10 average is also much bigger than in Russia and it takes 425 days. In EU-27 it takes 458,8 days enforce contracts, in USA 300 days, in China 406 days and in CIS 316 days.

Even though the time in Russia which takes to enforce contracts are comparable short, there could be done some changes. Firstly it should be increased efficiency at main trial court, what takes into account workers with better skills. Also it could be expanded specialized commercial courts, which would have special enforcement for the judgment. Such issue as the thresholds or ceilings to the commercial cases would also benefit in a way that it will be given concrete time and jurisdiction to solve a problem and there

wouldn't be involved higher courts. It is known that in Russia 2008 it was introduced possibility for electronic submission of documents, which will save some time. What is more, in 2010 it was established videoconferencing for hearings, which allowed parties to participate in the court without having travel cost. And it is visible that new changes improved at least the time of enforcing contracts in Russia. As it is visible, government tries to assure that courts wouldn't be prolonged.

10. Resolving insolvency (formerly closing a business)

“Doing business studies the time, cost and outcome of insolvency proceedings involving domestic entities”(Ease of Doing Business report 2012, Resolving insolvency, p. 7). This case of measuring insolvency is more studying how to reorganize business rather than liquidate it. To keep viable business working and proceeding is much more important than to close it, business operating after the bankrupt is one of the most important goals of bankruptcy system. After the 2008 years crises it was fastened bankruptcy reforms, because many business were struggling for their preservation, because it was very difficult to get an access to additional financial credit and creditors as well were in quite uncertain position. “Economies with good bankruptcy procedures are those that maximize the total value of recovered debt – to be divided among the debtor, the main creditors and possibly the shareholders – and make it possible to do so at low cost”(Ease of Doing Business report 2012, Resolving insolvency, p.2). Lower costs of bankruptcy can help to keep competition in the economy while encouraging the creation of new firms. “It should also discourage lenders from issuing high-risk loans – and managers and shareholders from taking imprudent loans and making other reckless financial decisions”(Ease of Doing Business report 2012, Resolving insolvency, p.2).

Especially good qualification of bankruptcy system is important to small and medium-sized business which instead of liquidation can turn in the way of reorganization.

By resolving insolvency in 2011/2012 Russia is ranked in 60th place out of 183 economies. Comparing with other BS-10 countries it is obvious that Russia is one of the best performers in this pillar and has the best bankruptcy system in whole Black Sea region. The worst performers in the region would be Ukraine with the rank of 156th position and Turkey with the rank of 120th position. It is a bit easier to resolve insolvency in such countries as Armenia 62nd position, Bulgaria 90th position, Azerbaijan 95th position, Romania 97th position, Moldova 91st position, Greece 57th (best performer). Talking about USA it is even easier to resolve insolvency because this country has the rank of 15th.

The best way to analyze and compare countries is to take a look at the time in how fast it takes to close a business. To close a business in Russia it takes 2 years. The same time is stated and in Greece. In other Black Sea countries it takes more: in Azerbaijan 2.7 years, in Bulgaria 3.3 years, in Georgia 3.3 years, in Moldova 2.8, in Romania and Turkey also 3.3 years, in Ukraine 2.9 years, only in Armenia it takes 1.9 years. Talking about BS-10 region's average here it takes about 2.8 years, while in EU-27 it takes 2 years. In USA it takes even more less about 1.5 years, in China 1.7, in CIS 3.1 years. This time is considered to be the measurement which describes the period from company's default until payment if the money is owed to the bank. The cost in Russia is also relatively small it takes 9% of estate, which is also not that much comparing with the other countries.

The important thing Russia could do for making the closing business system more efficient are these: setting time limits, to regulate more the profession of insolvency administrators, promote more reorganization, foreclosure procedures, to guarantee security for creditors, establish special courts, increase transparency of insolvency system and introduce framework for out-of-court restructurings.

POLICY RECOMMENDATION FOR EDB IN RUSSIA

Due to the Ease of Doing Business report of 2011/2012 Russia was ranked in 120th position out of 183 economies. As it is visible the result are worse than satisfactory. From the first view it looks like Russia is a huge country with so good possibility to start a new business or to develop it because of the population size. But as the results show, it is not easy to start and extend private companies because this sector in Russia still have big barriers which entrepreneurs need to overcome in order to establish new business even more there is any security or guarantee that the business will have all environment to be developed. There could be made some changes in domestic Russia's policy in order to make easier conditions for entrepreneurs.

First of all it takes long process to start a business, so that it could assure the business freedom which means more possibilities for private enterprisers. Also the process of starting business takes too long one of the main problem of this is that the bureaucracy institutions are too corrupted and the specialists are not qualified enough to fill the documents faster. Also to make quicker work in many institutions it should be established electronic documents' fulfilling version, which will save and time and money of enterprises. Simplifying signatures request and changing the old ones with the electronic signature would also save time.

To deal with the construction permits it also takes lots of time and procedures. Here also could be established online version registration which will benefit for new business a lot.

Getting electricity in Russia is probably one of the most discussed issues among entrepreneurs because it is the country where it is most difficult to get electricity. According to scholars if in Russia it would be easier way of getting electricity it immediately would raise GDB by 0.5%. Also there are many procedures in the process of getting electricity that could be made shorter or be assembled in one procedure.

The recommendation in registering property would be to spread the cadastral agencies in different regions in order for businessman to have better access in different parts of a country. Also registering each property there is asked for documents' copies which need to

be notarized, it also takes time and money. To solve this problem is better to require original documents or to fill electronic version as well.

Very important issue in Russia's economy is called Protecting investors. AS it is visible from results of EDB there not much interest of protecting investors. Companies are corrupted and bureaucracy system is not well controlled that is why there is any liability to the investors. Russia needs to get foreign investments because banks can not be only one solution of getting credits and investments. Also Russia should adopt new rules which would require shareholder's approval of large related-party transaction.

Paying taxes in Russia also takes long time and many procedures, for this also could be implemented electronic version which will let to entrepreneurs to pay taxes easier and they will controlled in a better way as well.

Trading across the borders is one of very stagnant sections in Russia's economy, because there are too many restriction while exporting and importing goods. The process itself also takes a lot of time and procedures, which could be done online but eventually is required to be made at the borders. What frightens businessman is the huge cost of exporting or importing goods, this is why there are very small amount of foreign business in Russia and that makes domestic market not competitive.

For the better contract enforcing environment it could be established special commercial courts which would deal with the cases from business perspective also I would be valuable for the cases such as easier and faster reorganization or closing business.

GENERAL POLICY RECOMMENDATIONS

Although Russia is quite well developed transition economy it still has many disadvantages in its economy. Despite all new implementations and reforms there are still many issues which need to be changed. The Global Competitiveness report and Doing Business indicators reveal main factors which need to be improved. The main spheres which need to be challenged are governance of institutions, administrative procedures, bureaucratic system and high level corruption, infrastructure, innovations, technologies, trading across the borders (export and import), protecting investors, not wealthy and competitive and not stable macroeconomic situation and starting a business. Due to the fact that neither in GCI report nor in RDB report of 2012 Russia shows good results, so that there should be adopted many other reforms in order to fasten the growth and competitiveness of Russia's economy.

Regulatory and administrative systems. Many problems in Russia are related with the administration and institutions. This basically means that the system is very corrupted, not effective and bribed. The government of Russia is embraced almost all sectors of economy and politics, what basically means no private regulations. In order to make Russia's economy competitive and opened for a new business there should be changed the structure and the procedures' systems in public institutions and government sectors. Also the level of Judicial system and courts needs to be clarified and crystallized in order to make people trust this institutions. Because of this mistrust there are many illegal issues in the country such as: illegal business, no registrations for paying taxes, any legal registration of infrastructure or property. This affects whole budget because then the government can not collect proper revenue.

New reforms in this administrative system would benefit not only for the global competitiveness of Russia, but also and for new Business who will emerge in the country. As it was from the analyzes of EDB the most important thing is to safe time and money of entrepreneurs what takes into account all the bureaucracy procedures they need to make

before starting a business. New electronic online versions of fulfilling documents would not require so many personal in various institutions; meanwhile it would be much faster processes for the enterprises. What is more well developed courts and clear and not corrupted judicial system would also benefit both: state and private entrepreneurs. Due to this it could be established new laws for the business and investors in order to protect them.

FDI and SME promotion policy. According to the research what was done in the paper it is obvious that there are many obstacles for the Foreign direct investors. First of all in order to bring them to the country there should be guaranteed the protection of the investors what basically means less corruption and more liability from the directors to the investors of the company. These problems could be solved by introducing new laws which are related with the bases of accountability. In order to invite more investors Russia should pay attention and to the taxes, because there are many administrative crimes which hides the taxes from the government. Also it could be made a procedure code that facilitates access to corporate documentary evidence during the trial process and lets to give direct questions of parties in a commercial trial.

Even more important thing than foreign investors are stimulation of a small and medium-size business. Establishing efficiency clusters of business it would be a solution. Also Russia needs more start-up programs in order to extent domestic and foreign markets what is mostly related with export. The export cost is too high from Russia that is why small business can not participate in these processes and they are too imitated. New possibilities and laws of trading across borders would benefit not only for the business but for the country's competitiveness as well, because according to M.Porter well developed small and medium-sized business bring the wealth for the common economy and make it competitive. Also it is very important to ashore that in the country there will be local supplier quality and quantity which will be able to support business.

Innovations and new technologies. Besides the fact that Russia is trying to reform its level of more effective administration it is not enough. There are still many problems with

the internet access and the knowledge of using it. Russia should invest more in a new research what takes into account science sophistication in order to develop th level of innovations and new technologies which would benefit for the common competitiveness of a country. To reach better results in these spheres there is a need for the business to cooperate more with the government and also to implement trainings and education programs for the workers in order to raise their skills.

Education investment. There is not only the need to invest into business, infrastructure, administration system, but also a hug need to invest into human capital. This is the way to develop the level of skilled workers who would bring the benefit to the country. Russia should pay attention not only for the special training courses which are urgent for the new innovations but also for an educational level of society. As it was analyzed in EDB chapters, one of the biggest problems is the lack of skilled professionals. The government should motivate young people to stay in the country and get a high education. Here also matters the salary, which at the moment is not well appointed for the skilled workers. Also there should be invented the link between business, universities and government, because they need to cooperate in order to have a benefit for the whole country. As it was analyzed before, there are still a lack of high quality business and management schools in Russia which are very important for renovation of economy.

All in all these recommendations are urgent in order for better economic results in Russia. If the country would lessen the corruption, raise the skilled workers number, liberate small and medium-sized business from huge trading and owning companies taxation, would fasten the bureaucracy mechanism and raise administration sector's effectiveness it is possible that in a few years the results be much better than in is in 2011/2012.

CONCLUSION

The main purpose of this paper was to evaluate Business Entrepreneurship and Environment of the Competitiveness in Russia. The two international indexes of EDB and GCI were used as the main indicators which revealed the economical and political obstacles for economic growth in Russia. After analyzes there were discovered the main weaknesses and strong parts of Russia's economy. Within this assessment there were analyzed the factors why in 2011/2012 in EDB report Russia is ranked in 120th position out of the 183 economies, and in GCI it has a rank of 66th place out of 142 economies.

Considering the Global Competitiveness report it is possible to maintain, that only the few pillars showed a good results. It was made good changes in the Macroeconomic environment, even though the progress is not that big. Secondly the Market size is one of the advantages in Russia's economy, but the fact is that it is not used properly, because the domestic business environment is not developed enough. Even more, collaboration with the other countries' markets would increase Russia's economy size, but there are no possibilities for easier import and export as it was showed during analyzes.

Also good achievements in Russia were made in EDB sphere. There are some attempts to lessen the time of fulfilling the procedures while starting business, registering property or getting credit. But it is not enough. Russia's government also made some proposal for establishing special courts which would work only with the commercial laws, but this is also not confirmed yet.

What is more Russia is trying to become a member of World Trade Organisation that of course is a good sign, because it influences many reforms and changes in the economy. In addition, Russia has a goal in 2020 to become one of the most competitive countries. This also shows the intention to raise the growth of economy.

Besides all these attempts today Russia is still very much corrupted and closed country. Because of the high taxation of export and import in the country there are still not available proper exchanges of the goods with the other markets. What is more the high supervision of government controls every public and private sector, people do not trust the bank and justice system, and there are high bribery and blackmail, so that the

administrator system is not clear. Also for the investors there is not the best environment to start a new business because of the poor level of safety, even though it would be beneficial to them because of the market size. Technology and innovation level is still very small because of not proper educational system and availability for internet or electricity connection.

In conclusion, the entrepreneurs who would like to invest in Russia's economy firstly should think about the time and money they have for investments, because in Russia it takes quite long and it is not guaranteed that it will be beneficial. On the other hand, Russia's market has a huge potential because till now it was so closed and everything was based on domestic goods and production. As soon as the oil and gas will not be main issue of exports and money collecting tools there will be established other services which will be useful for emerging businesses.

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APPENDIX: TABLES

1. Table. Ease of Doing business

Country	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2006/7- 2011/12
Armenia	46	39	44	43	48	55	-9
Greece	95	100	96	109	109	100	-5
Azerbaijan	97	96	33	38	54	66	+31
Bulgaria	54	46	45	44	51	59	-5
Georgia	35	18	15	11	12	16	+19
Moldova	90	92	103	94	90	81	+9
Romania	55	48	47	55	56	72	-17
Russia	112	106	120	120	123	120	-8
Turkey	65	57	59	73	65	71	-6
Ukraine	139	139	145	142	145	152	-13
Number of countries	178	178	181	183	183	183	

EDB 2006-2012

2.Table. EDB by Pillars 2011/2012

Countries' Ranks	EDB index	Starting a business	Dealing with construction permits	Getting electricity	Registering Property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Georgia	16	7	4	89	1	8	17	42	54	41	109
Armenia	55	10	57	150	5	40	97	153	104	91	62
Bulgaria	59	49	128	133	66	8	46	69	91	87	90
Azerbaij.	66	18	172	173	9	48	24	81	170	25	95
Romania	72	63	123	165	70	8	46	154	72	56	97
Turkey	71	61	155	72	44	78	65	79	80	51	120
Moldova	81	88	164	160	18	40	111	83	134	26	91
Greece	100	135	41	77	150	78	155	83	84	90	57
Russia	120	111	178	183	45	98	111	105	160	13	60
Ukraine	152	112	180	169	166	24	111	181	140	44	156
USA	4	13	17	17	16	4	5	72	20	7	15

3. Table. EDB Bureaucracy process 2011/2012

	Start a business (procedures)	Dealing with construction permits (procedures)	Registering property (procedures)	Paying taxes (payments per year)	Documents to export	Documents to import	Enforcing contracts (procedures)
Armenia	3	18	3	34	5	8	49
Greece	10	14	11	10	5	6	39
Azerbaijan	6	30	4	18	8	10	39
Bulgaria	4	23	8	17	5	6	39
Georgia	2	9	1	4	4	4	36
Moldova	7	27	5	48	6	7	30
Romania	6	16	8	113	5	6	31
Russia	9	51	5	9	8	10	36
Turkey	6	24	6	15	7	8	36
Ukraine	9	21	10	135	6	8	30
BS-10	6,2	23,3	6,1	40,3	5,9	7,3	36,5

4. Table. EDB spending time on procedures 2011/2012

	Start a business (days)	Dealing with construction permits (days)	Registering property (days)	Paying taxes (hours per year)	Time to export (days)	Time to import (days)	Enforcing contracts (days)	Resolving insolvency(years)
Armenia	8	79	7	500	13	18	440	1,9
Greece	10	169	18	224	20	25	819	2,0
Azerbaijan	8	212	11	225	38	42	237	2,7
Bulgaria	18	120	15	500	21	17	564	3,3
Georgia	2	74	2	387	10	13	285	3,3
Moldova	9	291	5	228	32	35	352	2,8
Romania	14	287	26	222	12	13	512	3,3
Russia	30	423	43	290	36	36	281	2,0
Turkey	6	189	6	223	14	15	420	3,3
Ukraine	24	375	117	657	30	33	343	2,9
BS-10 av.	12,9	222	25	346	22,6	24,7	425	2,8

5. Table. EDB Bureaucracy process 2011/2012

	Start a business (procedures)	Dealing with construction permits (procedures)	Registering property (procedures)	Paying taxes (payments per year)	Documents to export	Documents to import	Enforcing contracts (procedures)
EU-27 av.	5,6	15,0	5,2	16,9	4,6	5,3	32,0
USA	6,0	15,0	4,0	11,0	4,0	5,0	32,0
China	14,0	33,0	4,0	7,0	8,0	5,0	34,0
CIS	5,6	23,6	5,1	39,7	7,7	8,8	36,0
BS-10 av.	6,2	23,3	6,1	40,3	5,9	7,3	36,5

6. Table. EDB spending time on procedures 2011/2012

	Start a business (days)	Dealing with construction permits (days)	Registering property (days)	Paying taxes (hours per year)	Time to export (days)	Time to import (days)	Enforcing contracts (days)	Closing a business (years)
EU-27 av.	13,4	189,1	30,8	208,8	11,3	11,6	458,8	2,0
USA	6,0	26,0	12,0	187,0	6,0	5,0	300,0	1,5
China	38,0	311,0	29,0	398,0	21,0	24,0	406,0	1,7
CIS	13,8	217,0	30,5	330,0	42,7	46,9	316,8	3,1
BS-10 av.	12,9	222,0	25,0	346,0	22,6	24,7	425,0	2,8

Tables of GCI

Table 1: GCI scores, BC-10 region, 2001/2-2011/12

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
EU-27 av.	4,9	4,4	4,6	4,8	4,7	4,9	4,7	4,7	4,7	4,5	4,7
USA	6,0	5,9	5,8	5,8	5,8	5,6	5,7	5,7	5,6	5,4	5,5
China	4,4	4,4	4,2	4,3	4,1	4,2	4,6	4,7	4,7	4,8	4,7
BS-10 av.	3,8	3,6	3,7	3,8	3,6	4,0	4,0	4,0	4,0	4,0	4,1
Russia	3,7	3,64	3,68	3,53	4,08	4,19	4,31	4,15	4,24	4,21	3,95

Table 2: GCI rank, BS-10 countries, 2002/3-2011/12

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Av. 2002/12
Armenia	-	-	-	3,44	3,75	3,76	3,73	3,71	3,76	3,89	3,72
Greece	4,32	4,58	4,56	4,26	4,33	4,08	4,11	4,04	3,99	3,92	4,22
Azerbaij.	-	-	-	3,64	4,06	4,07	4,10	4,30	4,29	4,31	4,11
Bulgaria	3,68	3,67	3,98	3,83	3,96	3,93	4,03	4,02	4,13	4,16	3,94
Georgia	-	-	3,14	3,25	3,73	3,83	3,86	3,81	3,86	3,95	3,68
Moldova	-	-	-	3,37	3,71	3,64	3,75	-	3,86	3,89	3,70
Romania	3,59	3,38	3,86	3,67	4,02	3,97	4,10	4,11	4,16	4,08	3,89
Russia	3,64	3,46	3,68	3,53	4,08	4,19	4,31	4,15	4,24	4,21	3,95
Turkey	3,31	3,65	3,82	3,68	4,14	4,25	4,15	4,16	4,25	4,28	3,97
Ukraine	2,97	3,17	3,27	3,30	3,89	3,98	4,09	3,95	3,90	4,00	3,65
BS-10 av.	3,59	3,65	3,76	3,60	3,97	3,97	4,02	4,03	4,04	4,07	3,88

Table 3: GCI rank, BS-10 countries, 2002/3-2011/12

	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	200 2- 201 2
Armenia	-	-	-	79 th	82 nd	93 rd	97 th	97 th	98 th	92 nd	-13
Greece	38 th	35 th	37 th	46 st	47 th	65 th	67 th	71 st	83 rd	90 th	-52
Azerbaij.	-	-	-	69 th	64 th	66 st	69 th	51 st	57 th	55 th	+14
Bulgaria	62 nd	64 th	59 th	58 th	72 nd	79 th	76 st	76 st	71 st	74 th	-12
Georgia	-	-	94 th	86 st	85 th	90 th	90 th	90 th	93 rd	88 th	+6
Moldova	-	-	-	82 nd	86 st	97 th	95 th	-	94 th	93 rd	-11
Romania	66 st	75 th	63 rd	67 th	68 th	74 th	68 th	64 th	67 th	77 th	-11
Russia	64 th	70 th	70 th	75 th	62 nd	58 th	51 st	63 rd	63 th	66 st	-2
Turkey	69 th	65 th	66 st	66 st	59 th	53 rd	63 rd	61 st	61 st	59 th	+10
Ukraine	77 th	84 th	86 st	84 th	78 th	73 rd	72 nd	82 nd	89 th	82 nd	-5
Number of countries	80	102	104	117	125	131	134	133	139	142	

Table 4. GCI, pillar scores, BS-10 countries, 2011/2012

Pillars	Institutions	Infrastructure	Macroeconomics	Health & Primary Education	Higher education & training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
Armen	3,65	3,75	4,19	5,37	4,01	3,88	4,71	3,76	3,43	2,57	3,43	2,74
Azer	3,84	3,87	5,89	5,12	4,01	4,12	4,95	3,76	3,60	3,50	3,81	3,20
Bulg	3,32	3,62	5,13	5,80	4,16	4,08	4,49	3,99	4,11	3,80	3,55	2,94
Georgia	3,97	3,95	3,65	5,70	3,87	4,16	4,74	3,68	3,23	2,80	3,39	2,62
Greece	3,52	4,54	3,29	6,09	4,66	3,88	3,63	3,52	4,21	4,42	3,79	2,98
Mold.	3,38	3,32	4,34	5,46	3,93	3,94	4,31	3,60	3,52	2,43	3,27	2,44
Romania	3,49	3,37	4,52	5,72	4,42	3,96	4,10	3,91	3,76	4,39	3,48	2,91
Russia	3,08	4,52	5,16	5,70	4,54	3,60	4,40	3,21	3,66	5,73	3,34	3,14
Turkey	3,69	4,39	4,76	5,62	4,02	4,38	3,51	4,26	3,95	5,19	4,09	3,15
Ukraine	2,98	4,89	4,21	5,64	4,58	3,58	4,44	3,39	3,47	4,54	3,48	3,11
BS-10	3,49	4,02	4,51	5,62	4,01	3,88	4,71	3,76	3,43	2,57	3,56	2,92
USA	4,64	5,68	4,49	6,05	5,57	4,80	5,57	4,87	5,23	6,92	5,35	5,57
EU-27	4,60	5,08	4,94	6,21	5,08	4,61	4,48	4,44	5,08	4,29	4,62	4,05
CHIN	4,32	4,63	6,22	6,16	4,34	4,42	4,68	4,42	3,57	6,77	4,37	3,92

