

Can Russia Compete?

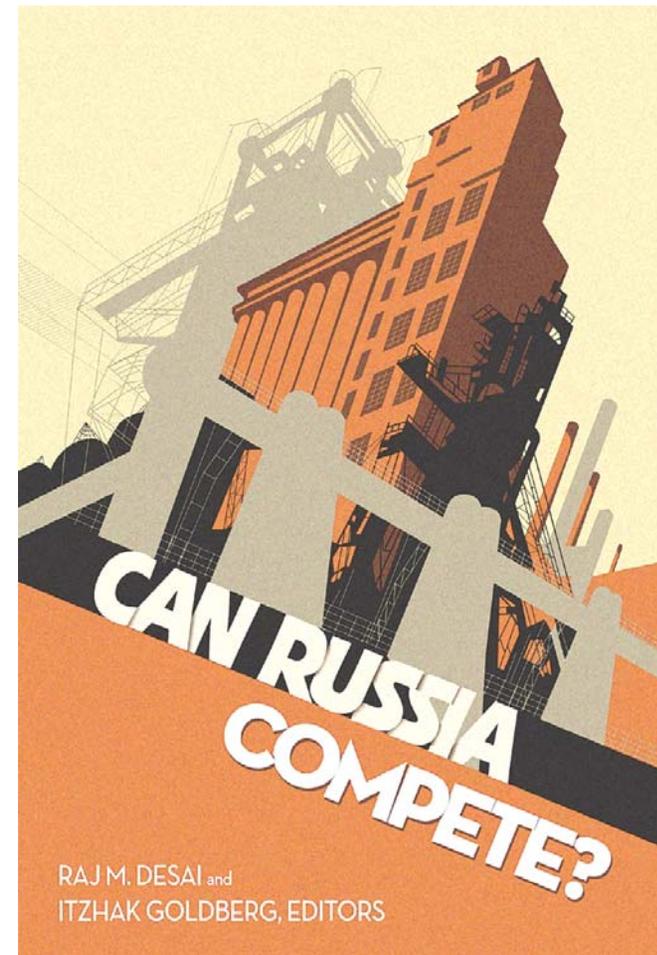
*Enhancing Productivity and Innovation in a
Globalizing World*

Raj M. Desai

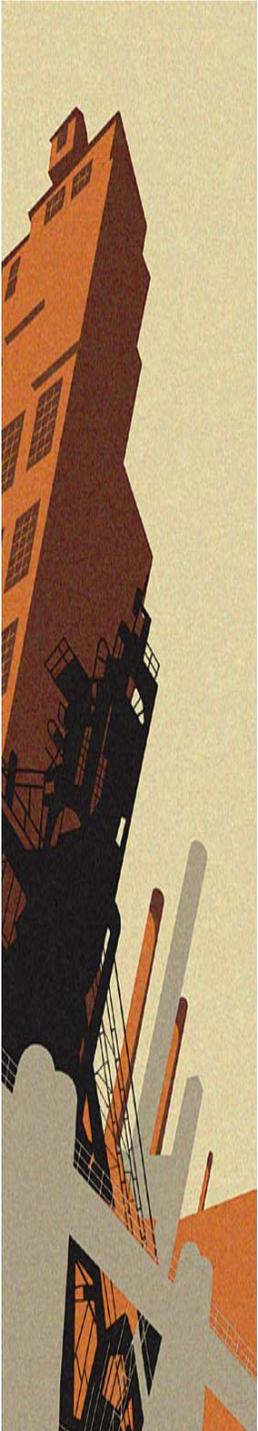
The Brookings Institution

Itzhak Goldberg

The World Bank



October 15, 2008, The World Bank

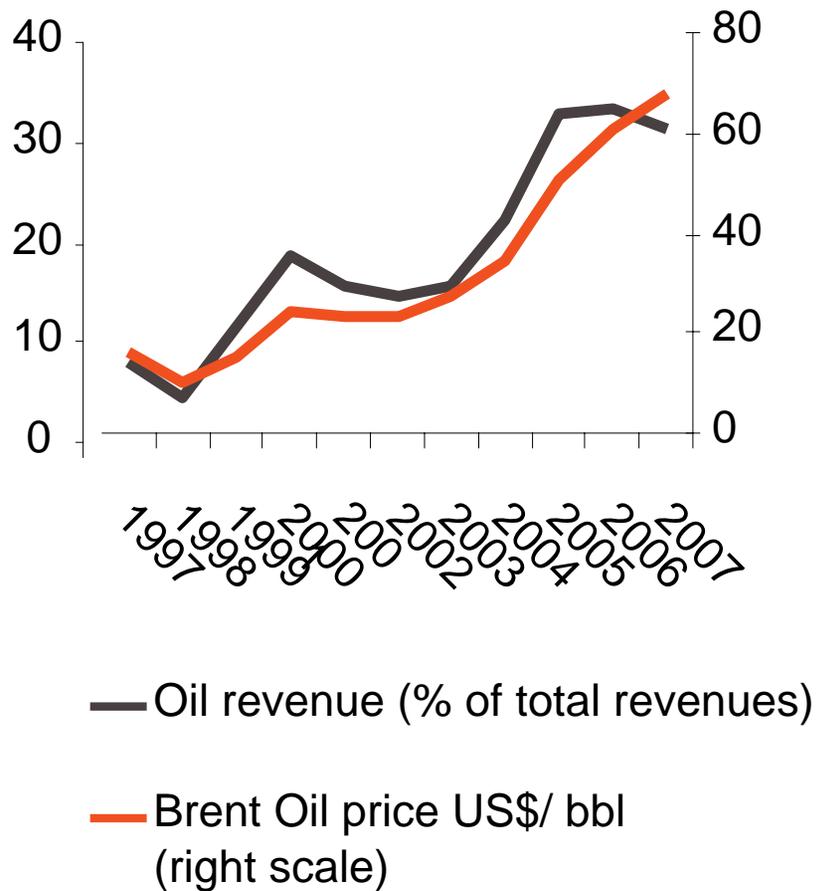


Outline

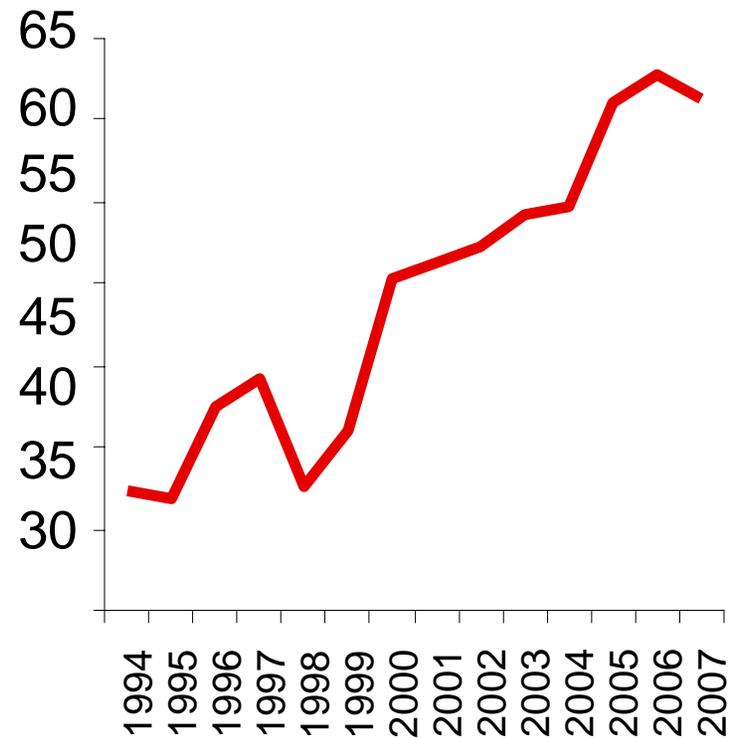
- Introduction
- Productivity
- Innovation
- Skills
- Policy Environment
- Recommendations

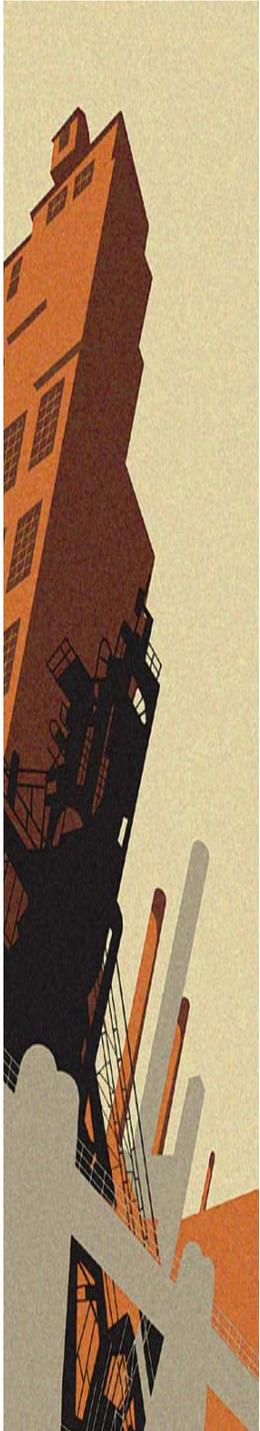


Increasing dependence on oil and vulnerability to price changes



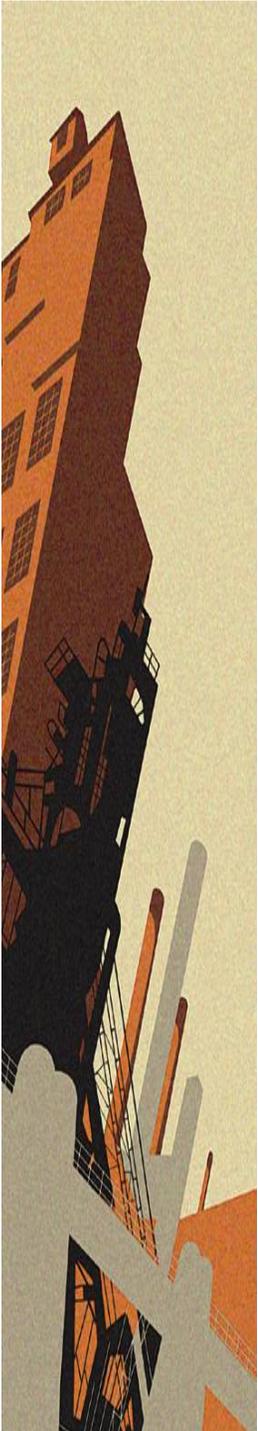
Oil and Gas exports (% total exports)





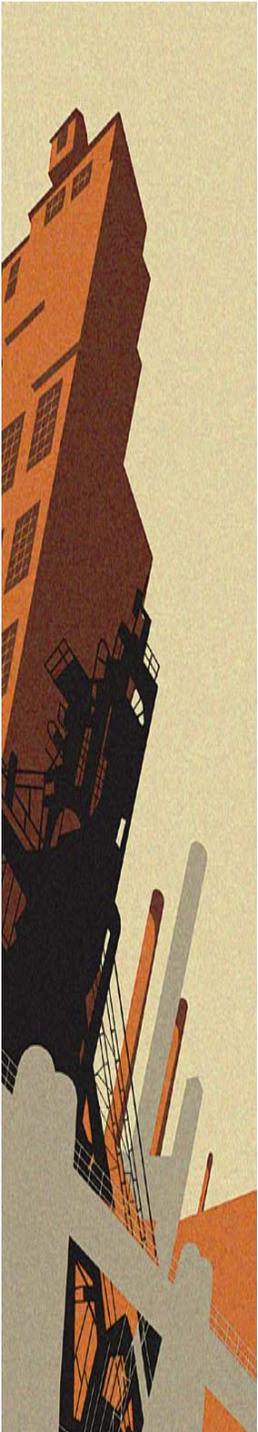
Economic Diversification

- Diversification is at the top of the Putin-Medvedev agenda
- But can it happen via top-down, state-sponsored efforts?

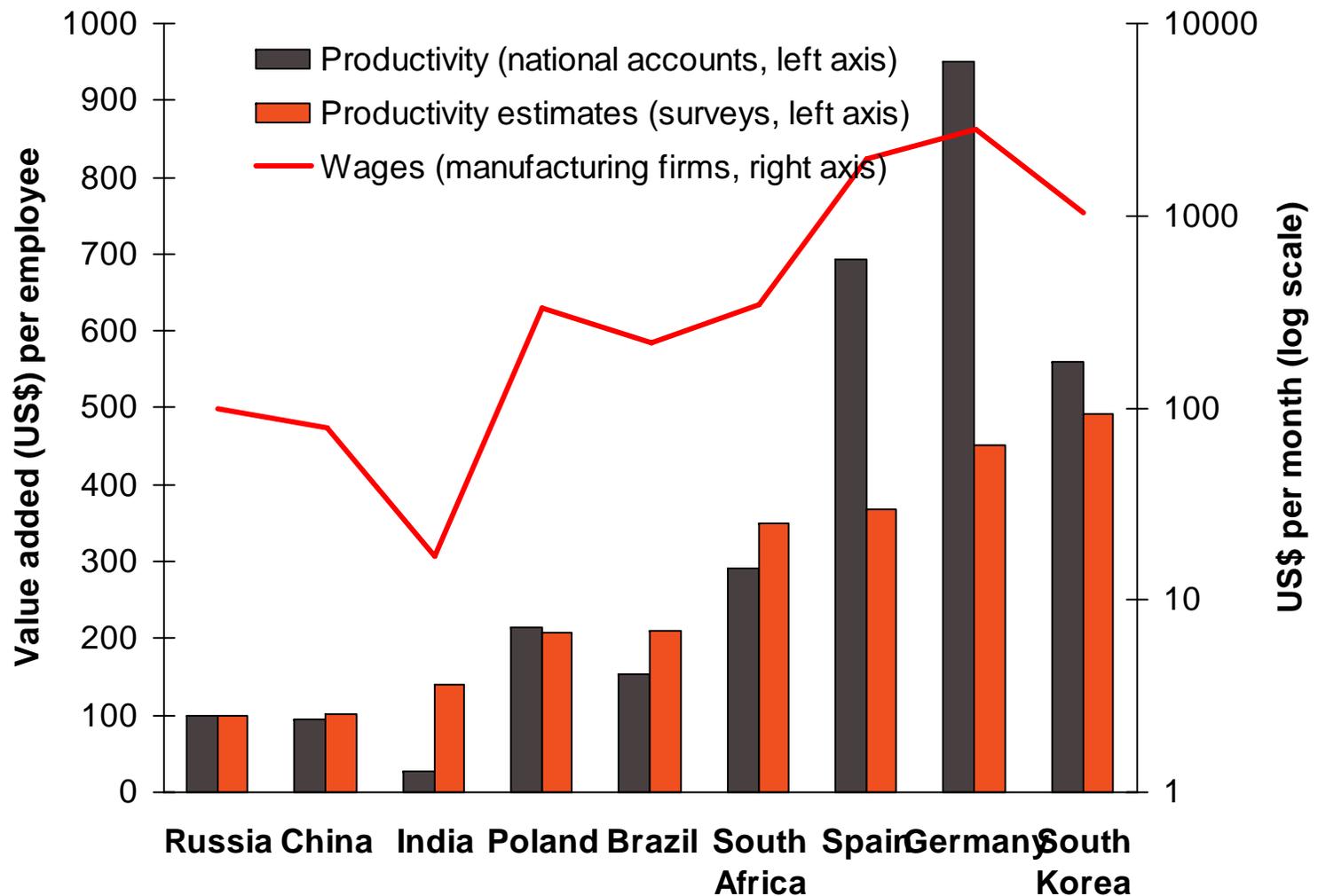


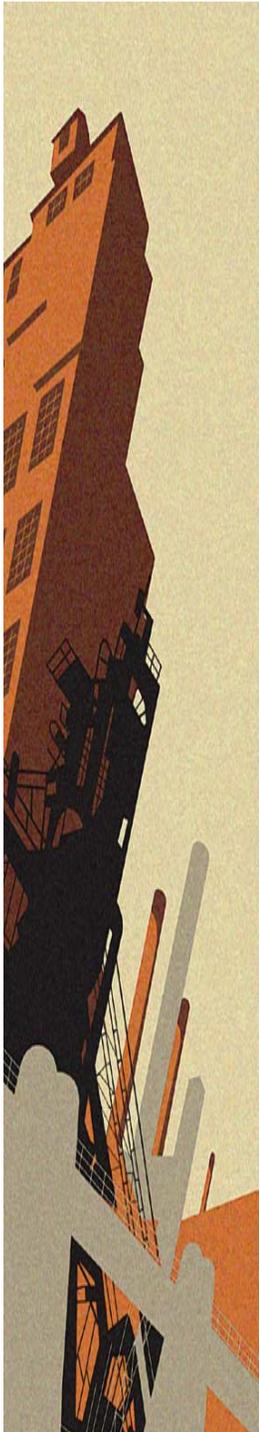
Productivity

What do productivity patterns tell us about the sustainability of Russia's economic performance?

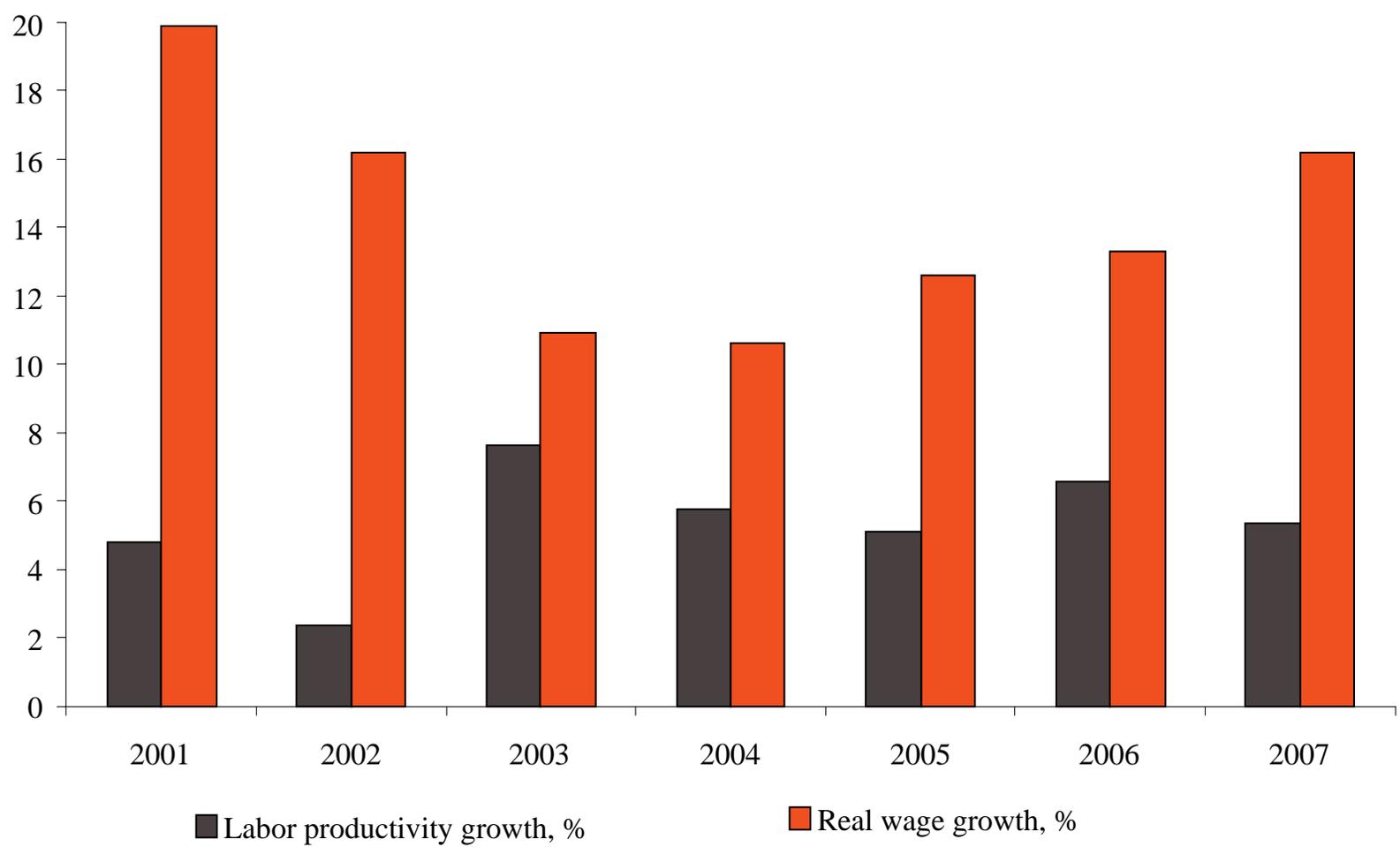


Russia's manufacturing productivity lags behind other large economies

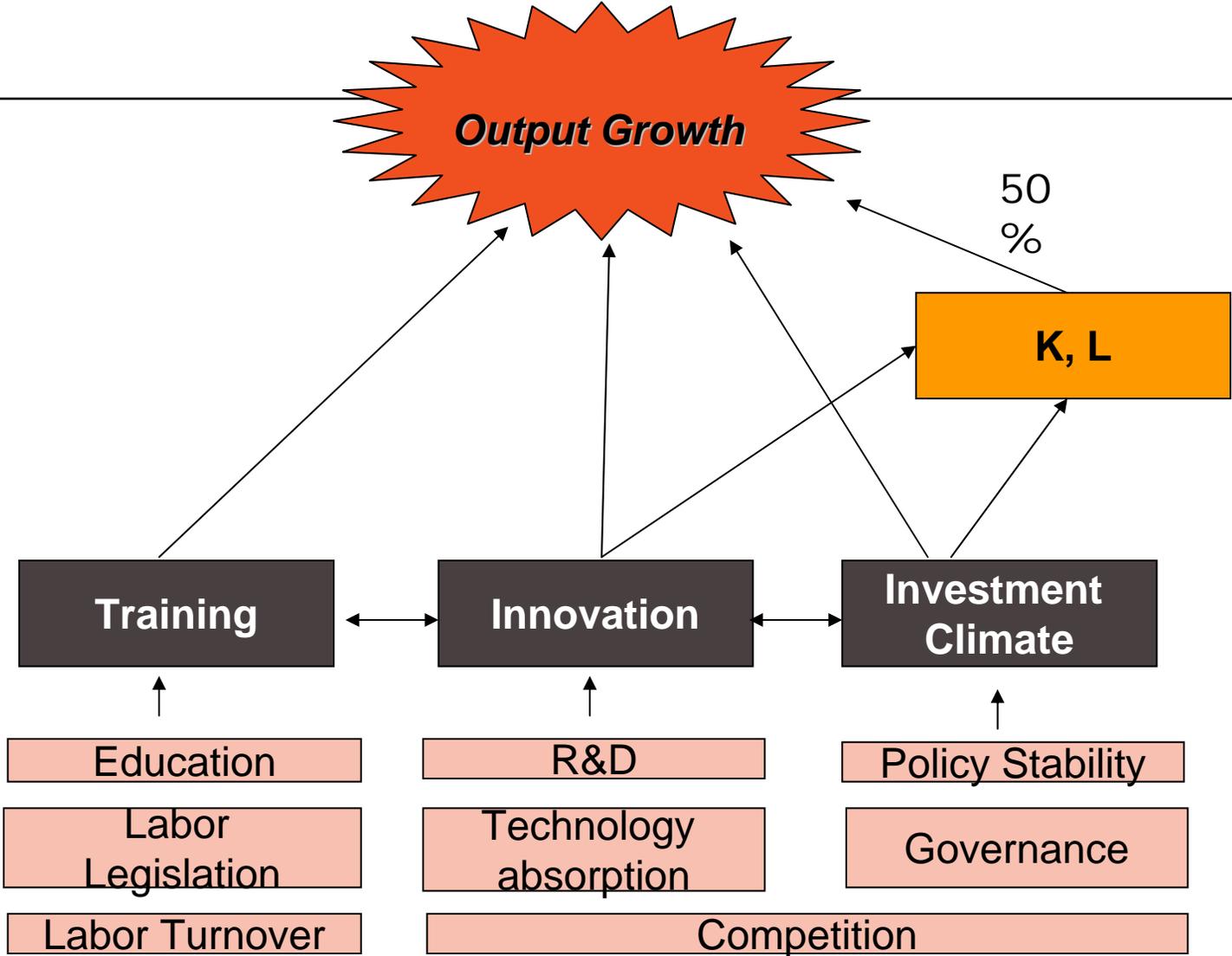
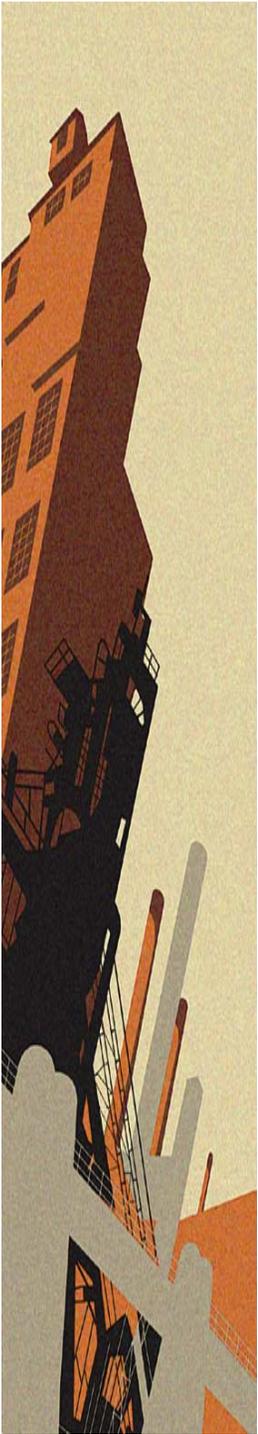


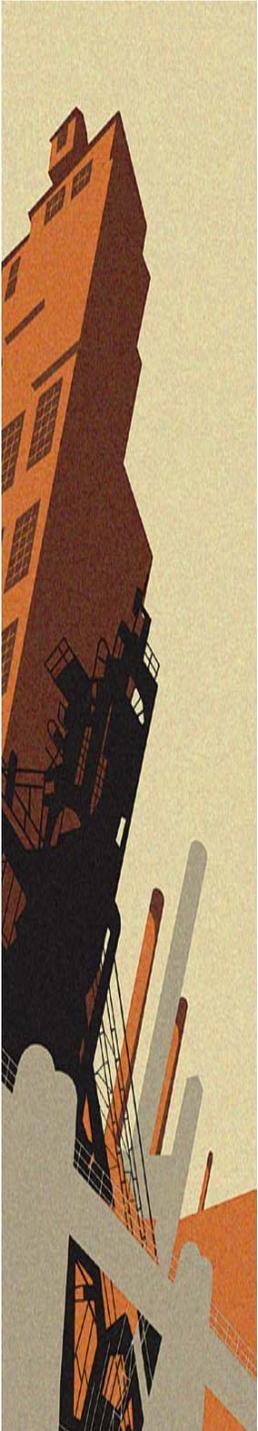


Real wages increases are outpacing productivity gains



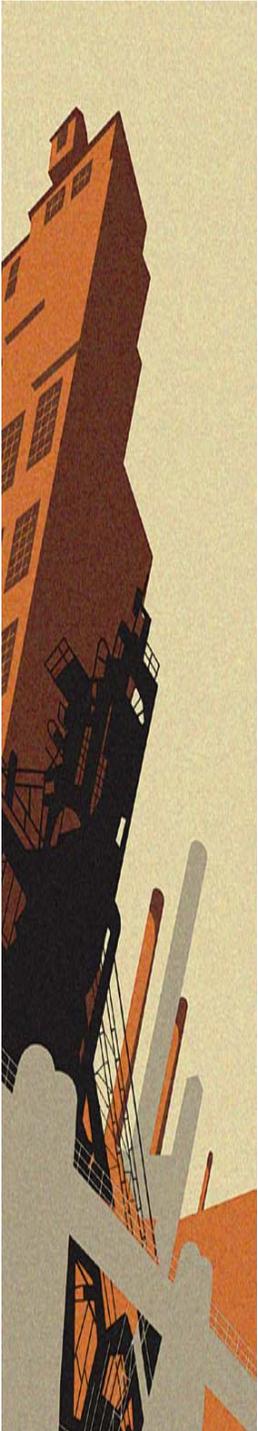
Sources of growth





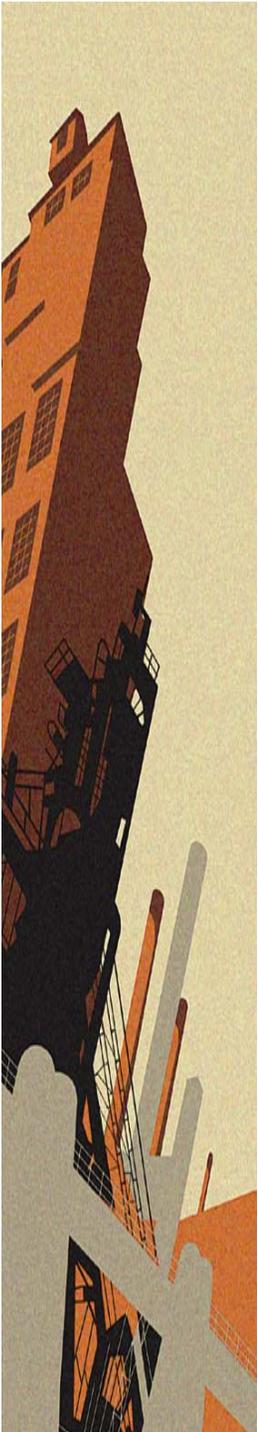
Innovation

- Russia's R&D sector is large, but underperforms in publications and patents
- Russian R&D Institutes commercialize less than in Poland, Croatia, Serbia

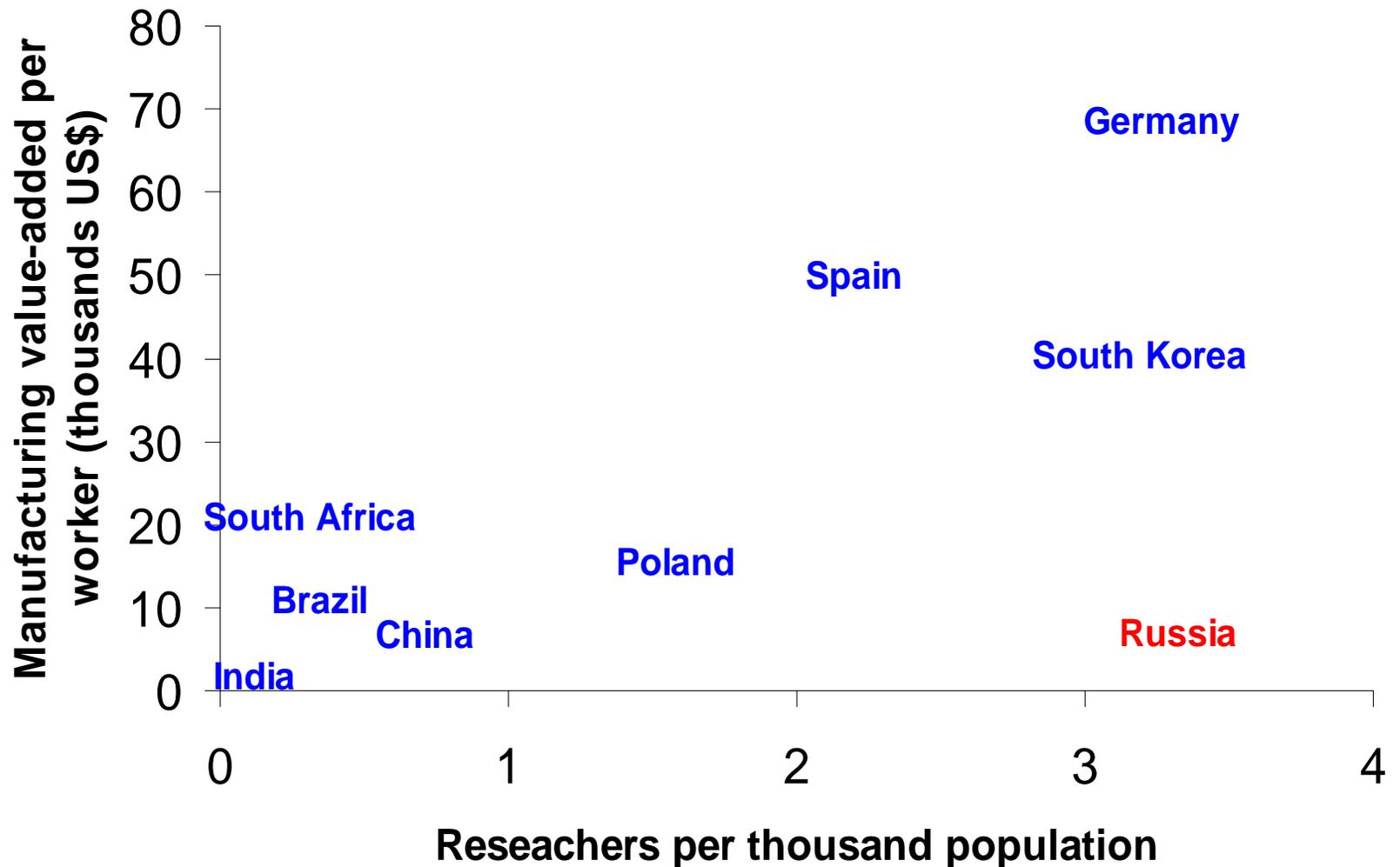


Barriers to innovation

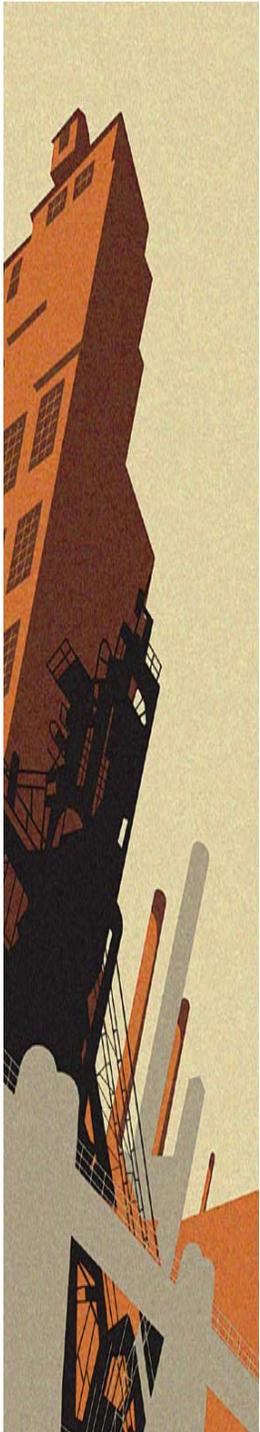
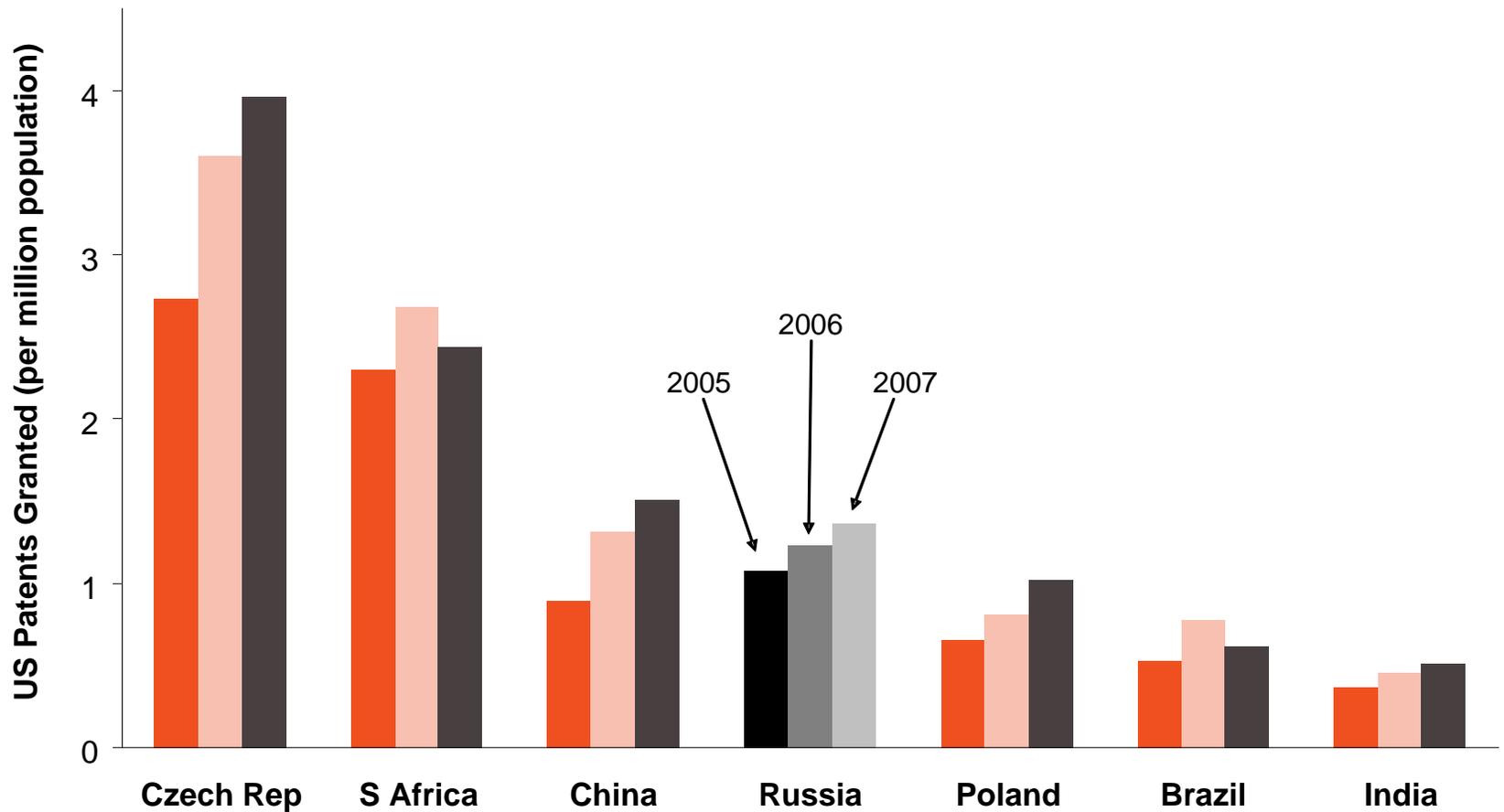
- Benefits from increased globalization have been limited
 - Trade in critical parts and components for electrical machinery remains low
 - FDI inflows in general, and inflows into information, communication and technology sectors (which could speed absorption) are low



Russia's research intensity does not correspond to productivity

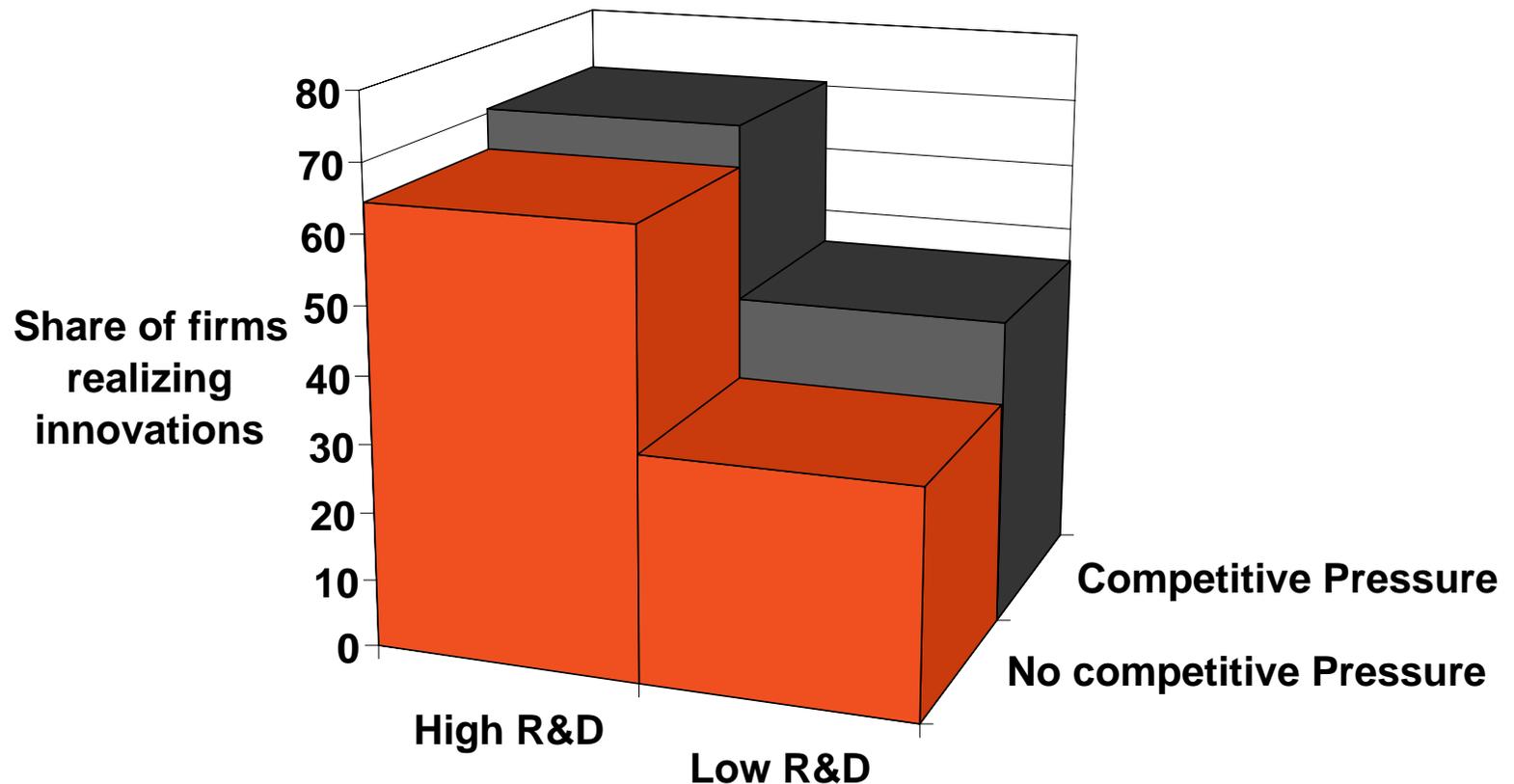


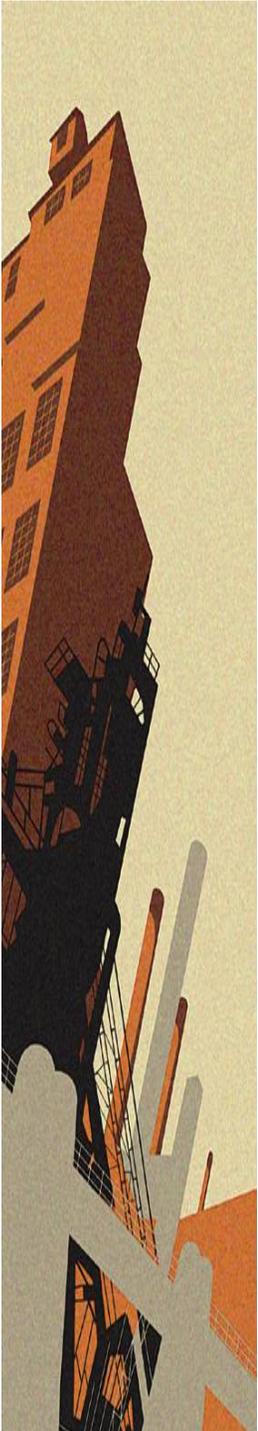
U.S. patents granted, 2005 – 2007





Firms that operate in less competitive environments also spend less on R&D and innovate less





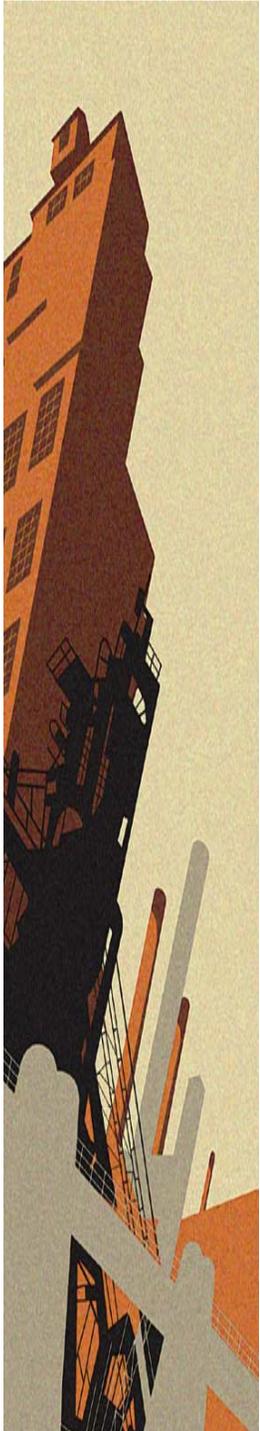
Skills

Are the skills of Russian workers sufficient for firms to become internationally competitive?

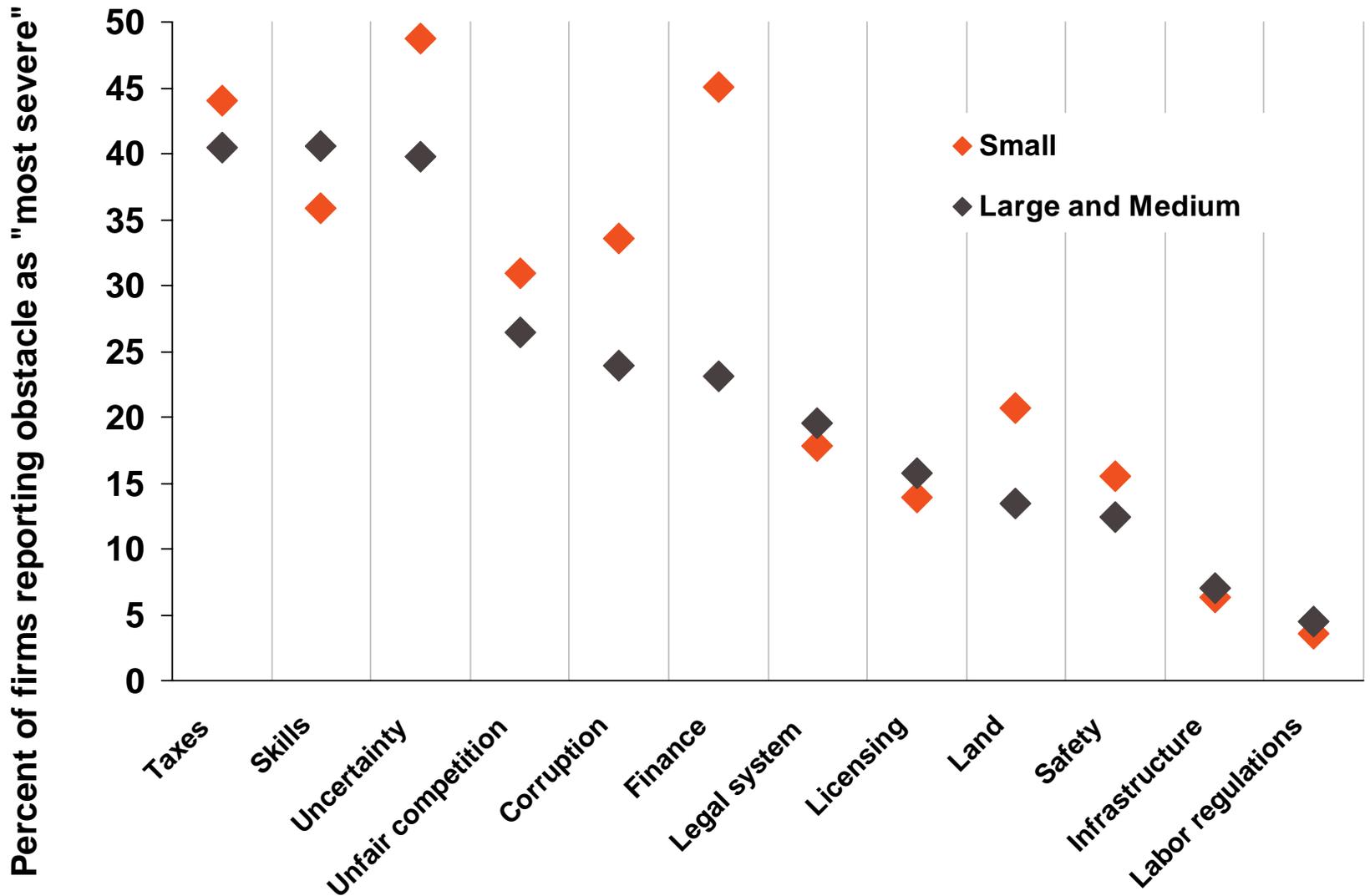


Training is critical for innovation and productivity

- By international standards Russia's workforce is highly educated
- But under-funding and deterioration of secondary education, and the absence of effective professional training are potential problems
- Russian firms that train
 - Are more productive and pay higher wages
 - Invest more in R&D and are more innovative
- High labor turnover reduces firms' investment in training

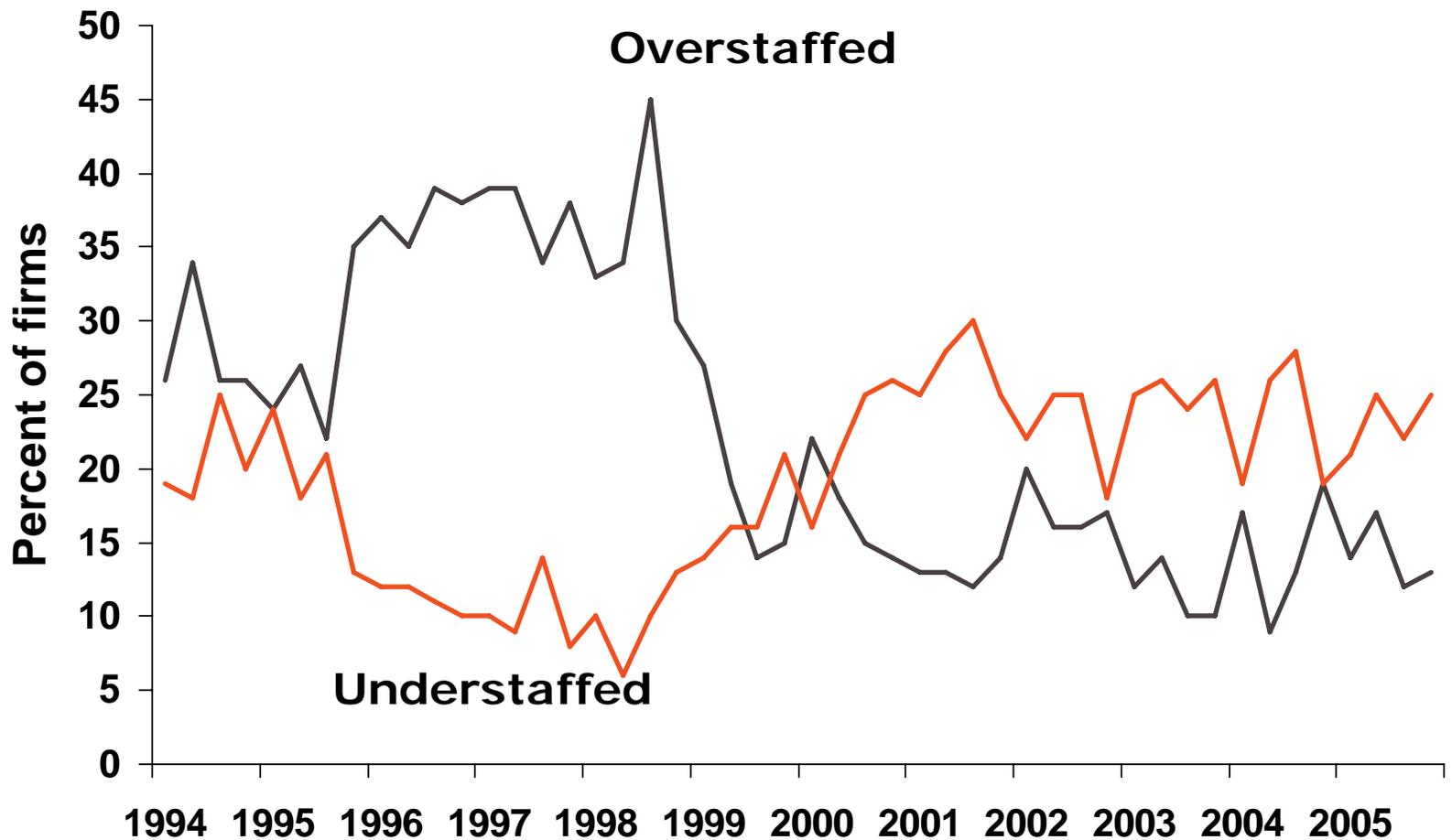


Labor skills is one of the main obstacles for all firms

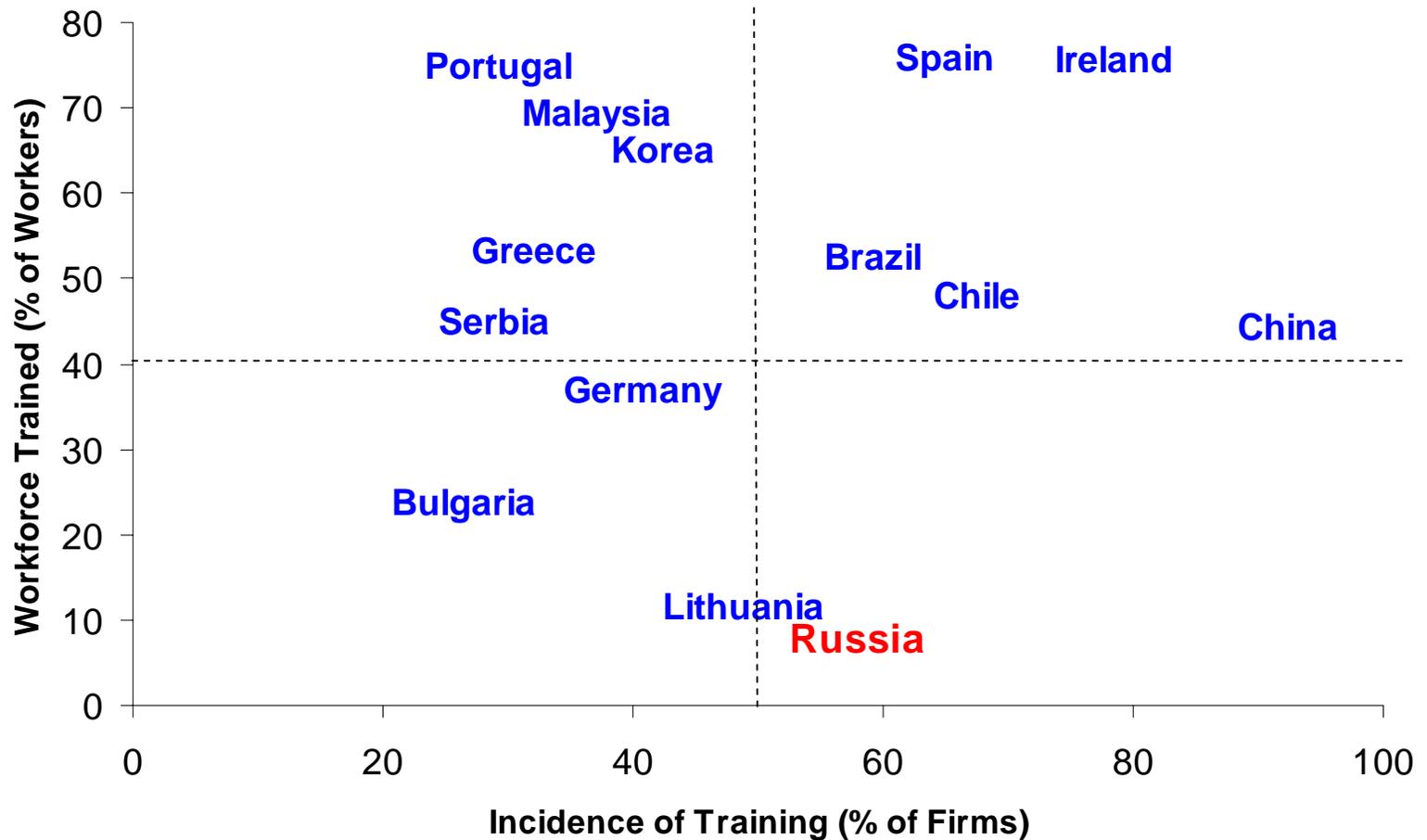


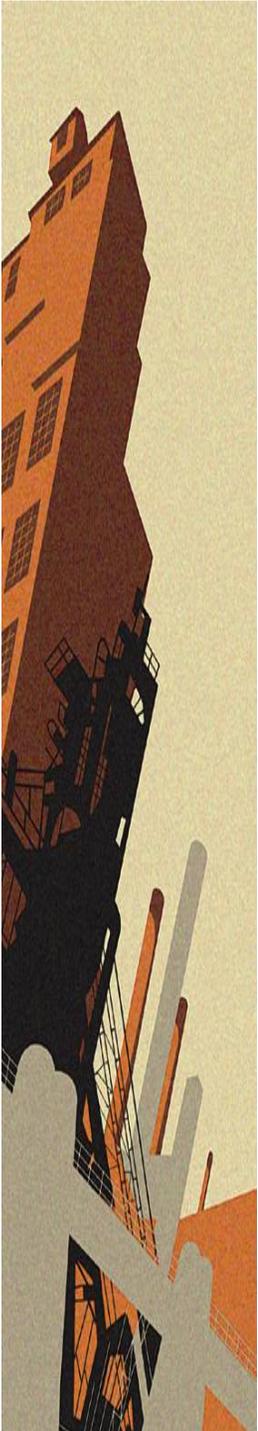


Russian firms cite a shortage of skilled labor as a primary constraint



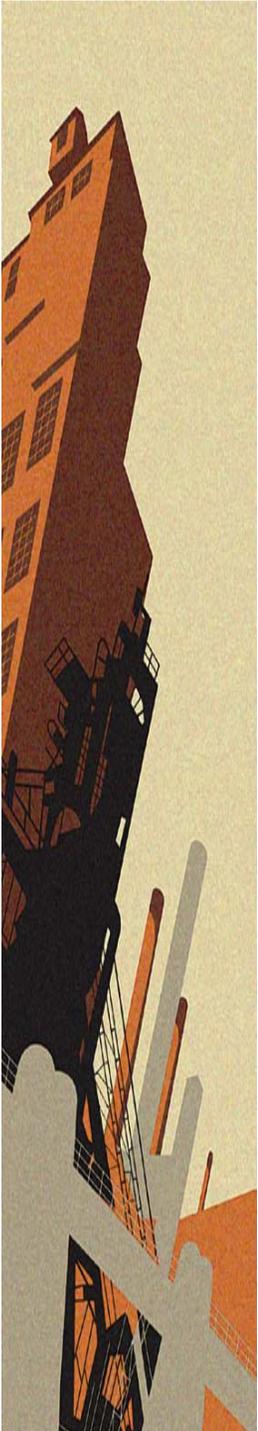
Many firms offer training but few workers are trained





The Business Environment

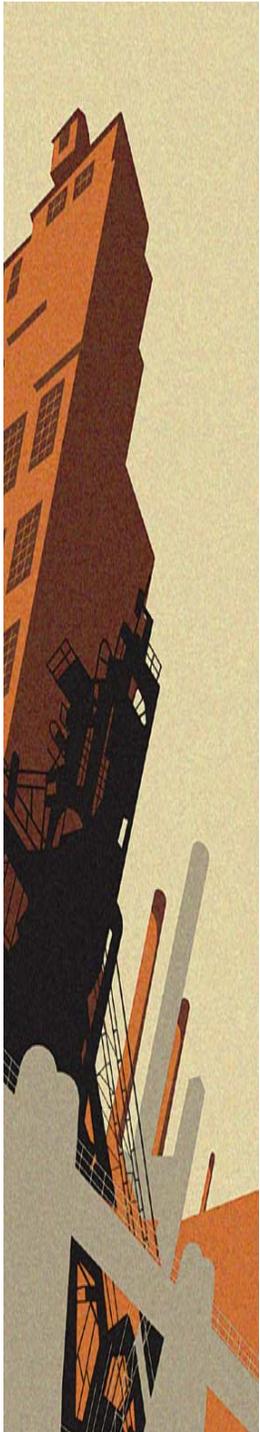
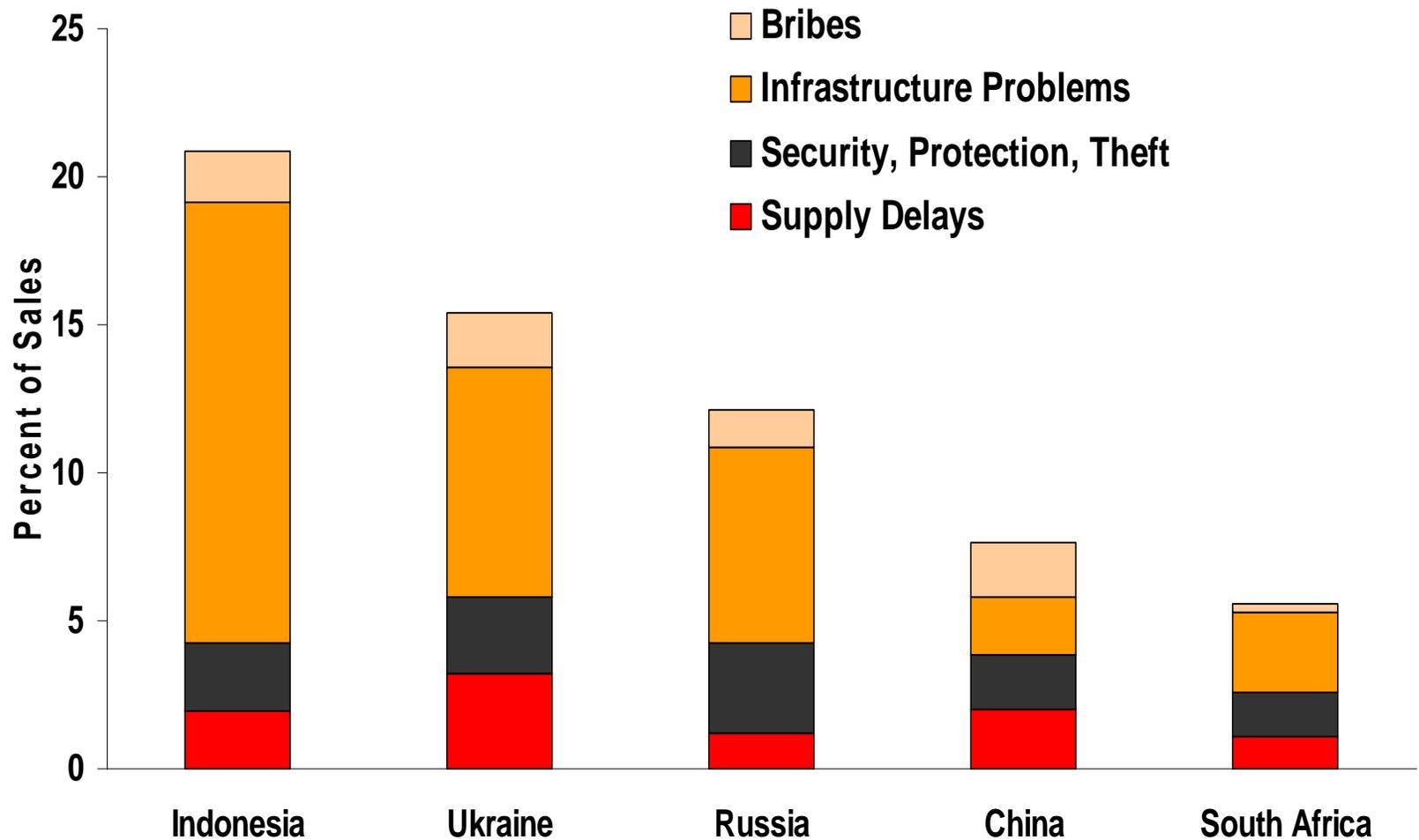
To what extent does the Russian business climate provide opportunities for competitive firms to expand and grow?

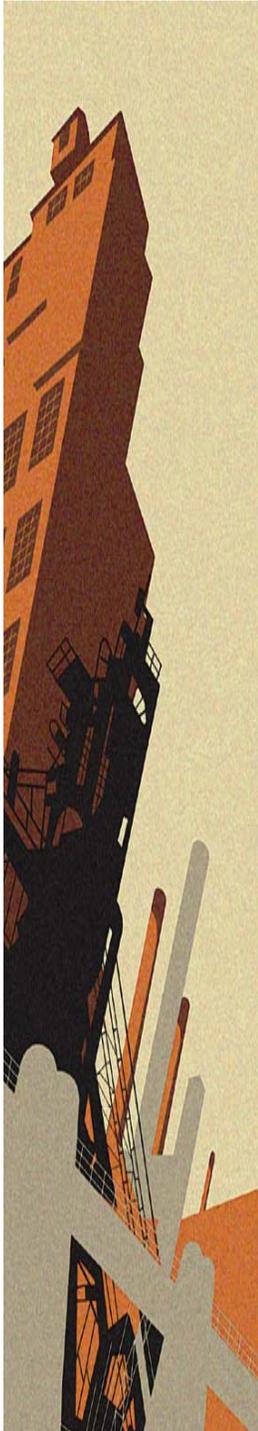


Russia has reduced the costs of doing business

- Start-up costs now lower than in Brazil, China, and India
- Reforms enacted in 2001-2000 streamlined regulations, reduced administrative barriers for firms, simplified licensing and inspection procedures
- World Bank-CEFIR monitoring reveals some backsliding

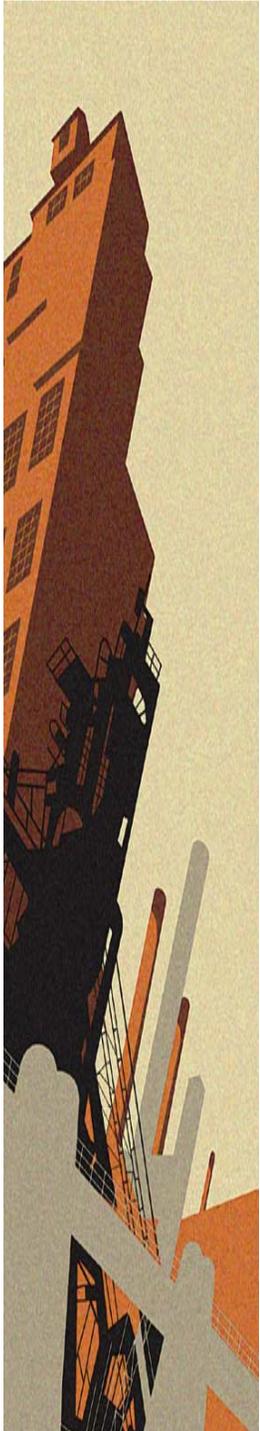
... But firms still bear costs of a poor business climate





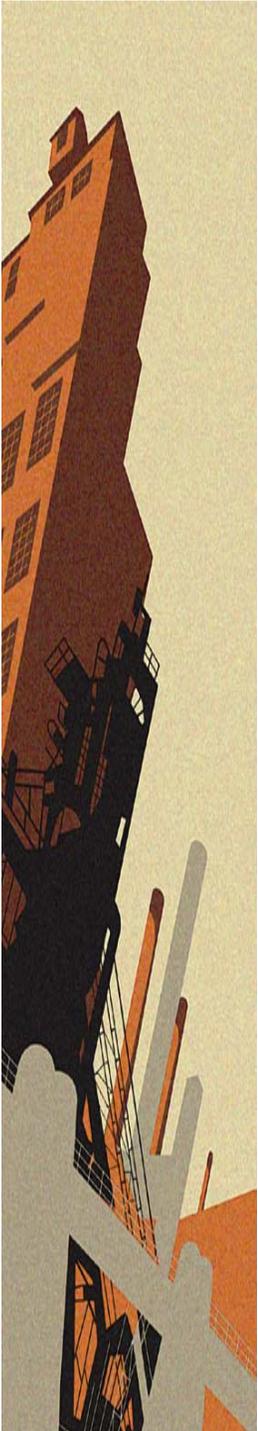
Costs are not the only problem

- Policy uncertainty
 - In Russia, the #1 problem (according to firm surveys)
 - According to the World Economic Forum, Russia ranks 75th out of 117 countries in regulatory unpredictability (China ranks 48th, India 50th, and Brazil 65th)
 - Often a result of regulations applied inconsistently or selectively
 - Deters investment
- Barriers to competition
 - Preferential treatment
 - Informal practices

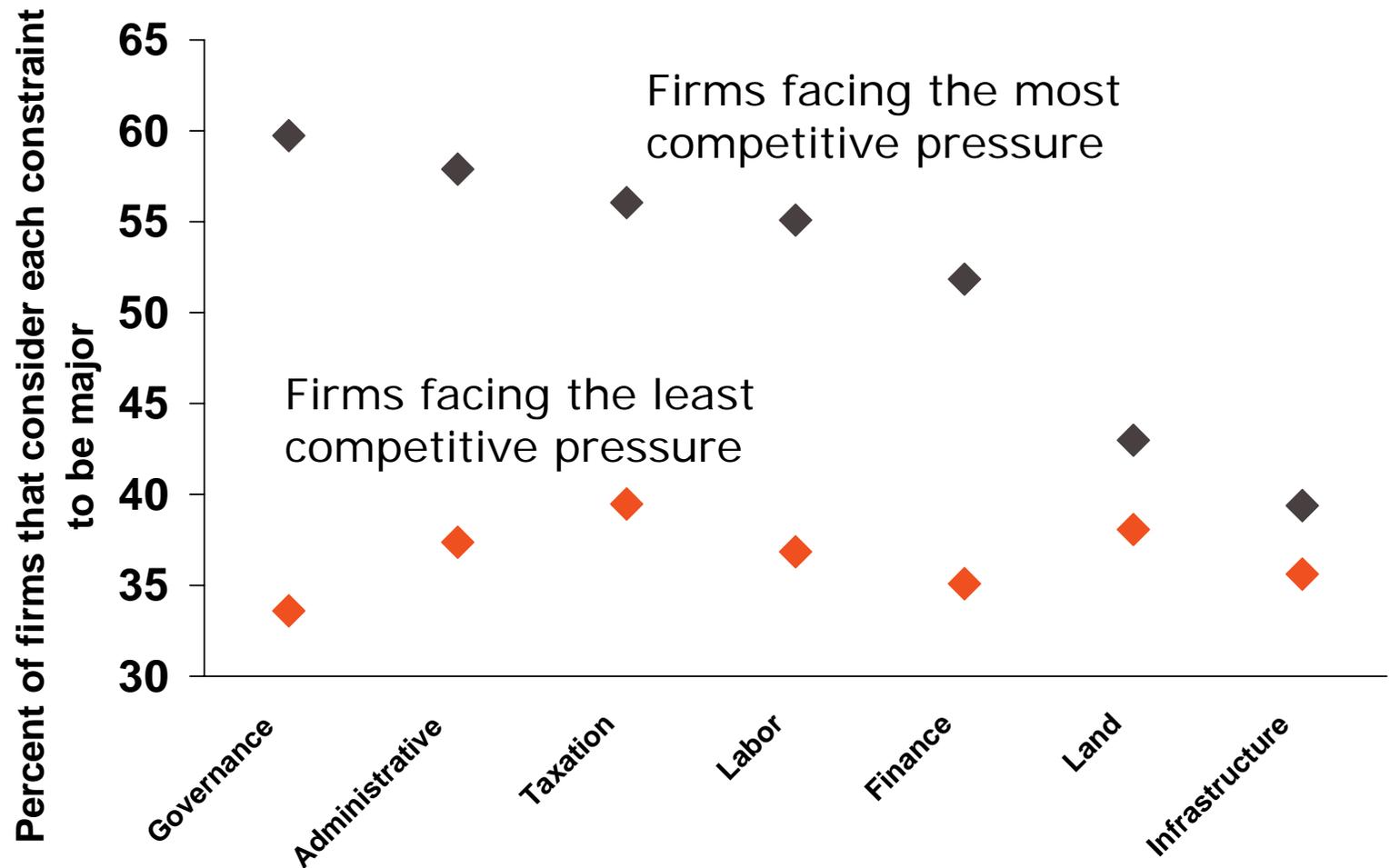


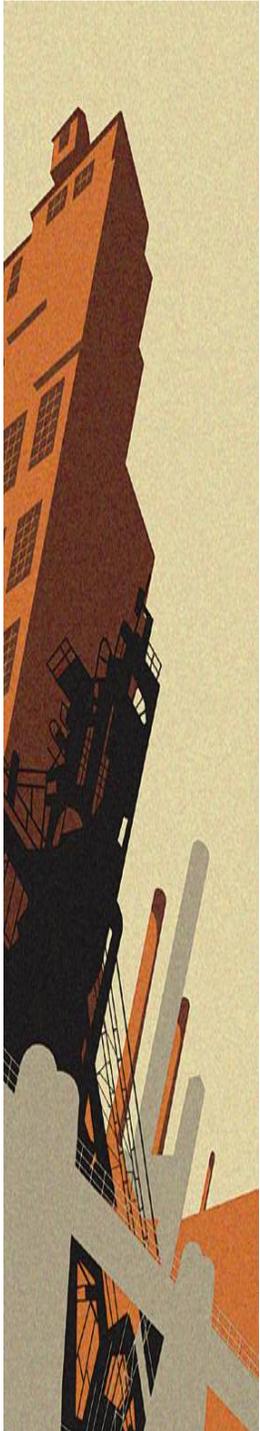
Does Russia's investment climate hinder innovation?

- Firms facing weaker competitive pressures do not innovate as much
- Innovative firms suffer from harsher IC constraints:
 - Are more likely to pay bribes
 - Suffer from more non-payment by customers
 - Pay more in protection payments
- Monopolistic firms (the least innovative) are relatively sheltered from IC problems



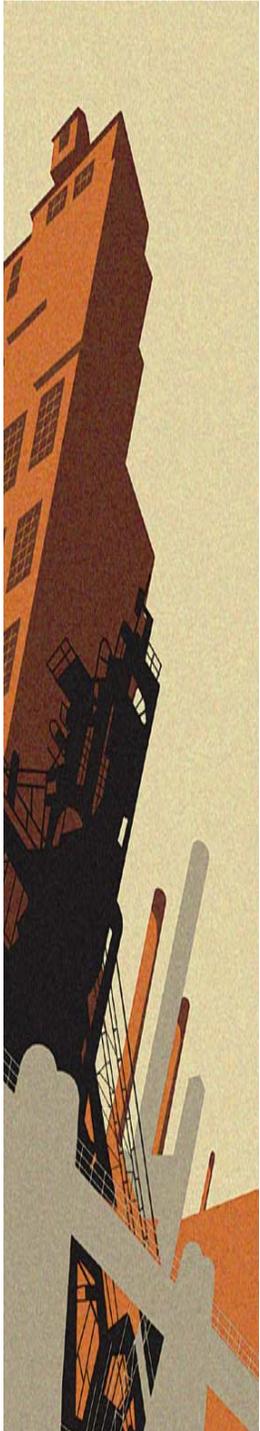
The investment climate is worse for firms that operate in a competitive environment





Recommendations

What can be done to improve the global competitiveness of the Russian economy?

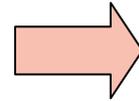


Towards a more innovative environment?

Current obstacle

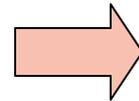
Way forward

Firms fall short of their innovative potential



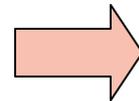
Incentives for greater R&D and an improved R&D regime

Workers lack skills to compete globally

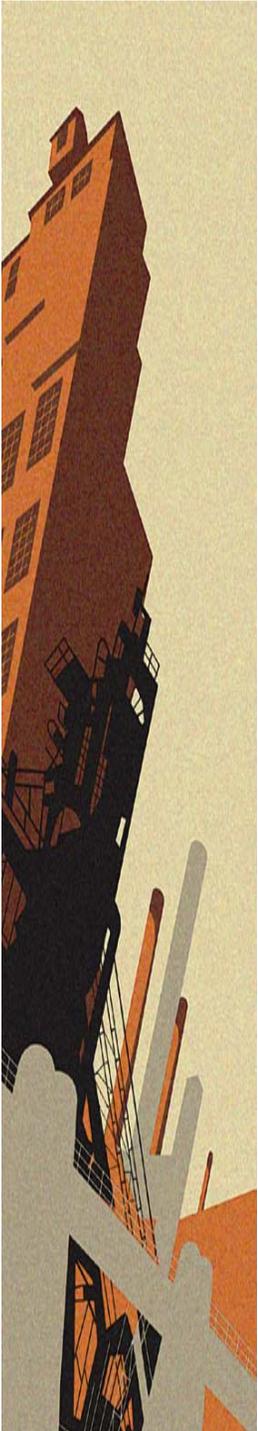


Improved in-house and vocational training

Policy environment constrains dynamic firms

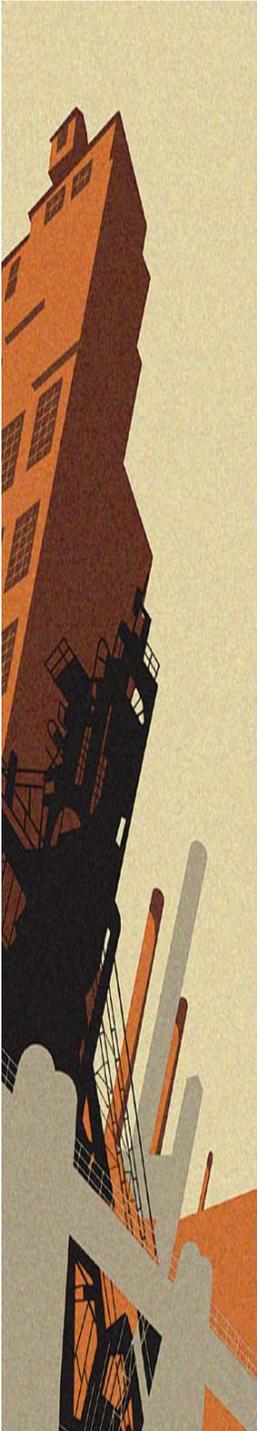


Competition in product markets, reduced policy uncertainty, and



Recommendations

- Facilitate the commercialization of R&D through
 - Matching grants, public-private collaboration
 - But avoid use of tax-based incentives or state-owned venture capital funds
- Use employer-targeted incentives to invest in in-service training
 - Payroll-levy funds
 - Matching grants



Recommendations (continued)

- Privatize municipally-held land
- Improve allocation and protection of intellectual property rights
- Strengthen consultative processes in designing regulations
- Updated administrative reform package
 - Limit warrant-less inspections
 - Reduce duplication between governmental bodies in licensing
 - Consider regulatory-review mechanism