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Russia's Growth Ranking Low, Hopes High

By Guennadi Moukine

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A study on economic factors that stimulate growth that was released Thursday puts Russia in 43rd place out of 60 countries, showing no overall improvement over last year's ranking.

The Grant Thornton Global Dynamism Index for 2013, which combined 2012 results with economic development forecasts for 2013, placed Australia at the top of the list, Chile second, China third, and the U.S. and Britain in the 11th and 34th positions, respectively. Struggling eurozone country Greece took last place.

The overall score was derived from five high level categories, each of which was rated separately using 22 different economic indicators, such as gross domestic product growth rate, investments in research and development, regulatory risk, access to finance and labor productivity.

The five categories are business operating environment, science and technology, labor

and human capital, financing environment and economics and growth.

While Russia was ahead of most of Europe and the U.S. in the ''economics and growth'' and ''labor and human capital'' categories, 16th and 13th place respectively, it is second to last place when it comes to the financial environment — an assessment of the quality of the regulatory system, medium-term capital availability, merger and acquisition deals, inward direct investment and corporate tax burden.

"The government has not needed to worry about the issues that were frequently raised by foreign investors, for example, corruption, excessive bureaucracy and poor legal protection, because the economy was growing strongly on the back of hydrocarbon wealth and the surge in domestic consumer activity since 2004," said Chris Weafer, senior partner at Macro Advisory.

As far as the business operating environment goes, the country is in 53rd place, one point ahead of Ukraine. For science and technology it is in the middle of the ladder, in 26th place.

Among the BRIC emerging markets, China took the lead, climbing 17 points up, to take third place overall. Brazil is 42nd, one spot ahead of Russia, and India is 48th.

Historical government satisfaction with the status quo also resulted in a scarcity of well conceived ideas that could be commercialized, said Kseniya Anoshina, an analyst from Grandis Capital Investment Company.

"Often, interesting ideas were left unfinished and not customized, making them useless for practical life. Russia is able to build rockets, but assembles washing machines under a license bought in the West," Anoshina said.

The 2008-09 economic crisis changed everything, Weafer said. It became obvious that the economy now needs a big increase in investment, both into infrastructure and into new industries, the previous complacency has been blown away, he added.

"Russia now needs foreign investment and the expertise of foreign investors to pull the economy out of the current state of near stagnation," Weafer said.

Low interest rates, allowing market players to access long-term financing, are also needed. It would make the business and financial environment in Russia truly attractive, said Timur Nigmatullin, an analyst from Investcafe.

"So long as the government sticks to [stated] commitments, I would expect to see Russia's ranking in the Global Dynamism Index, and other similar indicators, to start rising from 2014," Weafer said.

Nigmatullin said he expected Russia's ranking to improve up to 10 points in the next three years.

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