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Davos and Russia's Regions

By Nikolai Petrov

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Recent events in Ukraine and the differences between its east and west force us to take a new look at the role regions play in the process of political and societal development.

In Russia — which is at least a de jure federal state — the regions play a potentially major role in both the political and economic spheres. That was demonstrated at the recent Davos World Economic Forum, where the Russian delegation included a number of regional heads, including Anatoly Artamonov (Kaluga), Vladimir Gruzdev (Tula), Lev Kuznetsov (Krasnoyarsk), Rustam Minnikhanov (Tatarstan) and Sergei Morozov (Ulyanovsk). The World

Economic Forum's working group, led by former Finance Minister Alexei Kudrin and Yale University professor Aleh Tsivinski, presented its report "Russia's Regions: Drivers of Growth: 4x4" at Davos.

That report was a continuation of the "optimistic" scenario begun at last year's Davos conference. It suggests that Russia can break free from the negative cycle caused by dependency on oil income and the country's weak institutions if individual regions take the initiative to improve their investment climate.

Drawing on the World Bank's Doing Business report, the authors identified the most attractive Russian regions for doing business: the Ulyanovsk, Mordovia, North Ossetia, Rostov, Tatarstan and Kaluga regions. In setting the stage for the report, WEF founder Klaus Schwab said, "Russian regions may be important actors in driving these institutional reforms and ultimately leading to fast and sustainable economic growth across the country. Some regions already perform better than the country overall in improving conditions for business and in terms of their growth performance."

Until recently, about 10 Russian regions and a number of cities ordered audits by international rating agencies. However, they stopped the practice because it was expensive and somewhat pointless considering that regions were prohibited from attracting foreign investment. However, a new bill would permit regions to receive foreign investment if two of the three international rating agencies of Fitch, Moody's and Standard & Poor's assign them a credit rating at least equal to that of Russia's. Two regions meet the criteria: Moscow and St. Petersburg.

Kaluga Governor Artamonov made the bold claim at Davos that in just two or three years, Russia could achieve an economic "great leap forward" that even China would envy. The creation of a powerful cluster of automobile manufacturers in the Kaluga region is perhaps the only success story in recent years, but it cannot be replicated elsewhere.

Kaluga demonstrates both the prospects and the limitations of an economic miracle in any given region. It is good that other regions are attempting to achieve the same degree of corporate development. The problem is that Kaluga is a very specific example of when regions vie for foreign manufacturers who are attracted by the promising Russian market and the government encourages localized production.

The region is an example of a) a powerful new industrial cluster appearing practically from scratch that is, b) comprised almost entirely of foreign businesses. Numerous attempts by other regions to achieve similar results have thus far not met with any obvious success, including efforts by the republic of Tatarstan with its enormous economic incentives and the Ulyanovsk region with its years of trying to revive the local aircraft industry. But there is another important lesson here: it is possible to resolve an individual region's economic problems by bringing in major manufacturers that are attracted by the huge Russian market, but it will be impossible to achieve the country's economic development without decentralization and institutional reforms.

Nikolai Petrov is a professor of political science at the Higher School of Economics.