

Forum Participants Say State Still Key to Industrial Success

By [Gabrielle Tetrault-Farber](#)

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Correction appended:

ST. PETERSBURG — Capital flight from Russia of \$63 billion in the first quarter of 2014, an unprecedented figure exacerbated by the crisis in Ukraine, has sparked questions about the government's ability to compensate for fleeing capital, including from the country's industrial sector.

As foreign investors have demonstrated increasing reluctance to invest in Russia, the state has been called upon more than ever to fill the widening void.

"State investment, overall, can be used to accelerate other types of investments, because state funding supports other sources of capital in the economy," said Andrew Somers, former president of the American Chamber of Commerce in Russia. "It can even have a jump start effect when there are geopolitical issues, like the situation in Ukraine. When GDP is down

and there is unemployment, many economies look to the government to improve the economic situation and infrastructure."

But the state's role in industry is not limited to investment in infrastructure or compensating for dwindling capital, Andrei Guryev, general director of PhosAgro, a Russian producer of phosphates and fertilizers, said.

"Companies need to learn how to use the tools gained from Russia's membership in the World Trade Organization," Guryev said at the St. Petersburg International Economic Forum. "We need the support of the Industry and Trade Ministry to learn how we can protect and promote our business and to understand our new possibilities."

Echoing business education specialists, Evgeny Gavrilenkov, chief economist and managing director at Sberbank CIB, said the state also should play a role in revamping the education system. Russia, he said, requires a better adapted work force to meet new industrial demands.

Not all were so enamored — Despite the state's central role in supporting the country's industrial base, Luca Caruso, director of Bain & Company Nordic, a global management firm, warned Industry and Trade Minister Denis Manturov, of the risks of overstretching the state's resources throughout the industrial sector.

"If I could give Minister Manturov one piece of advice, I would tell him to channel resources into two or three industries to make them strong, instead of spreading resources too thin across all industries," he said.

Despite the consensus that Russia should work towards improving its competitiveness, Industry and Trade Minister Denis Maturov vehemently objected to the notion that the country's industrial potential was weak.

"We should first and foremost try and think about positive things," Manturov said at the St. Petersburg International Economic Forum.

Manturov said the bleak portrait of Russia's industrial potential painted by media and economic analysts were overblown — "The media, analysts, various experts do not show the reality of our situation. We open new industrial facilities, new enterprises, we buy new industrial equipment, but no one talks about it."

Correction:

An earlier version of this report named Andrew Somers president of the American Chamber of Commerce in Russia. He is in fact the former president. The current president is Alexis Rodzianko.

Contact the author at g.tetraultfarber@imedia.ru

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