The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russian Anti-Monopoly Service: State Doubles Presence Over Past Decade

The Russian economy can be characterized as a capitalism of state monopolies.

By Yekaterina Mereminskaya

September 29, 2016



Dmitry Grishkin / Vedomosti

The Russian economy can be characterized as a capitalism of state monopolies. That is the finding by the Federal Anti-Monopoly Service (FAS) in a report on the state of competition in Russia. The report contains a number of points that government officials will find troubling, FAS head Igor Artemyev said.

The state has rapidly increased its presence in the economy. Together with state-owned companies, its share in GDP rose from 35 percent in 2005 to 70 percent in 2015. The number of state and municipal unitary enterprises has tripled in the last three years alone, and they

continue to appear in markets with highly-developed competition where their use of administrative resources and government financing poses a serious threat to other players. Such businesses have mushroomed at the regional and municipal levels, squelching competition in local markets.

The government is also very reluctant to part with its assets. In 2012 it expanded the list of major state-owned companies slated for privatization with the intent to significantly reduce its stake in those concerns and possibly sell them off entirely. But those plans have changed: The government has now decided to retain corporate control and its influence over management.

The state's expanded presence in the economy has deepened monopolistic tendencies in the "economic space uncontrolled by the state," the FAS lamented.

Nearly half — 48 percent — of respondents in a survey by the Russian Union of Industrialists and Entrepreneurs said that the authorities treat businesses like a "personal piggybank." That number was up from 42 percent who felt that way in 2014. A decreasing number of businesspeople feel that the authorities treat them like junior or equal partners. The survey found that 15.8 percent of companies believe that the authorities view business as a breeding ground for corruption. Only 2 percent of those questioned agree that "the authorities view business as a competitor."

Businesspeople said that government officials are the main enemies of competition. The authorities' actions are the main reason for the decline in the number of competitors, the FAS concluded, citing a report by the government's Analytical Center.

The government's retaliatory food sanctions are one example of the negative impact on competition. The embargo has led to a sharp increase in food prices, while and the much vaunted program of "import substitution" is applied in only isolated instances.

The report said that accelerated import substitution "could carry a hidden threat to the economy" by leading to reduced competition and diminished efficiency in product markets.

The import substitution policy should be limited to only a few areas such as defense and the provision of pharmaceutical and food security, the FAS stated. The agency also argued that modernization and the creation of new enterprises from scratch should serve as the main form of import substitution.

Artemyev said that to combat monopolies and counterproductive actions by government officials, the FAS recommended focusing on a national plan for developing competition that is being prepared by order of the president. The FAS proposed setting economic indices as performance goals that governors and ministers would have to achieve or lose office.

The role of state and quasi-state institutions — state-controlled companies and corporations along with development institutions — is increasing, noted Alfa Bank chief economist Natalya Orlova. Private businesses have to tighten their belts, while the public sector is under far less economic pressure.

State-owned banks conduct a freer credit policy than private banks and issue loans to less efficient companies, Orlova said, adding that state-owned companies are not focused on profitability. It seems the government is satisfied with current situation, she said.

Original url:
https://www.themoscowtimes.com/2016/09/29/russian-state-doubles-economy-presence-over-past-decade-a55529