

EU and Russian Economic Prospects

Comparative analysis

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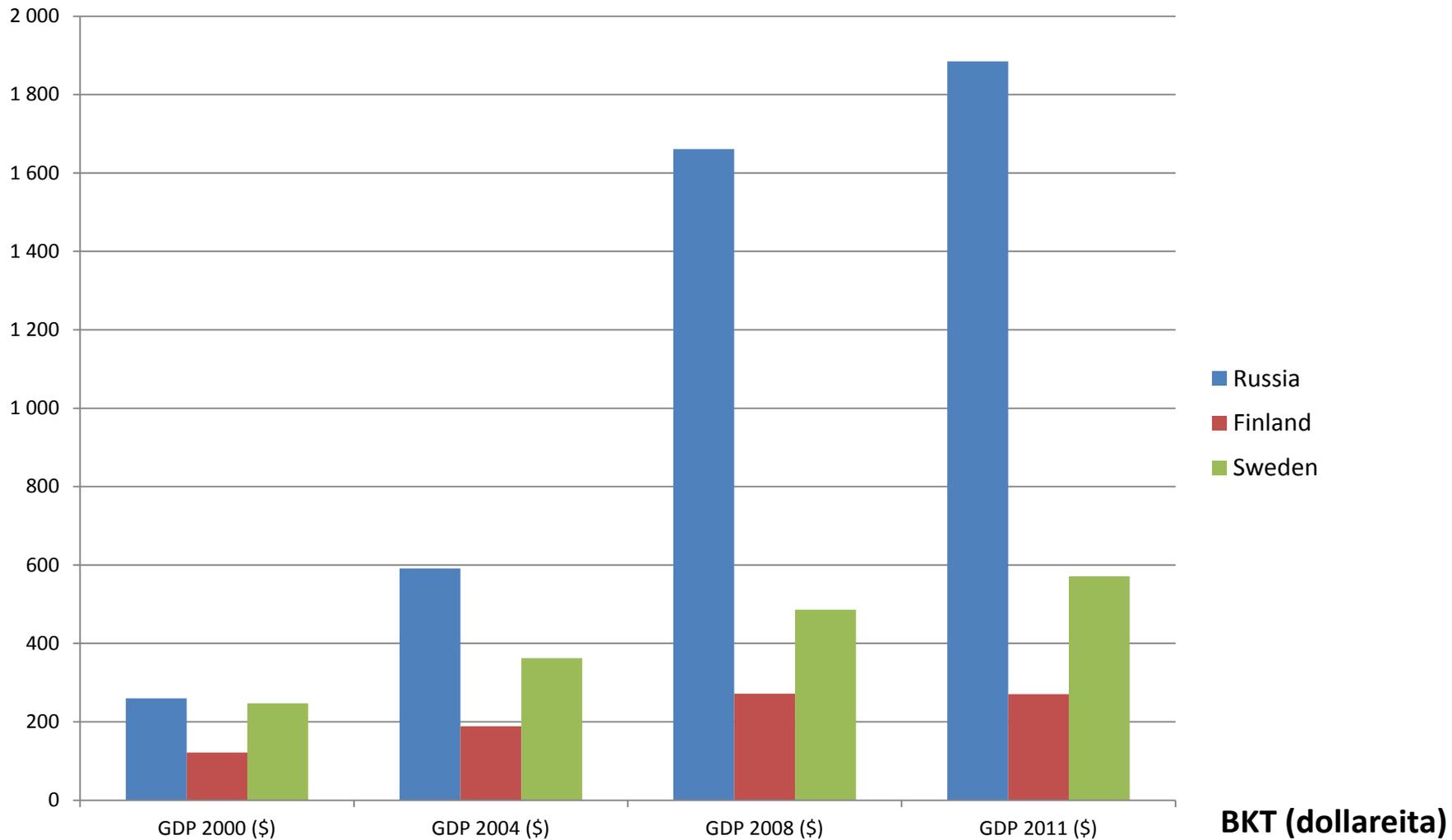
MOSCOW, ST.PETERSBURG, TVER, YEKATERINBURG, KYIV, HELSINKI





"Hellevig is always too optimistic about Russia"

“...But compared with the real results of the Russian economy my optimism seems very modest, as can be seen from below graph...”



The Decline of the West

The West has lost its historic competitive advantages at the same time when it has become burdened with a lot of competitive disadvantages.



EU's (West's) historic but now lost competitive advantages:

1. Democracy

- while others were totalitarian states (communist, military, religious, dictatorial)

2. Market economy

- While others were busy destroying their own economies (planned economies, anti-market systems)

3. Convertible currencies, financial markets, banking system

4. Historically superb education system compared with the others

5. Technological superiority

6. Free speech and free media

7. Colonialism, exploitation of resources of the rest of the world

“Dognali i peregnali!”

Now all the historic competitive advantages are gone.

The rest of the world has caught up with West and many may soon surpass it.



Not only lost advantages but cumulated disadvantages:

Huge debt

- budget cuts
- no more possibilities for hang-over financing (strange Japan can still do it)

Shaking monopoly currencies

Over regulated economies (and life in general)

- EU regulated economy, to many aspects a planned economy, not a market economy any longer

A dysfunctional democracy. “Gallup-democracy”

- Workforce and electorate protecting “achieved social benefits”

Aging population

Most importantly historically European system was based on competition

Now competition has been eradicated in all spheres of
life

The European Union is the anti-thesis of competition
And besides, it is already built.

CONCLUSION

EU economy will never recover to its former strength.

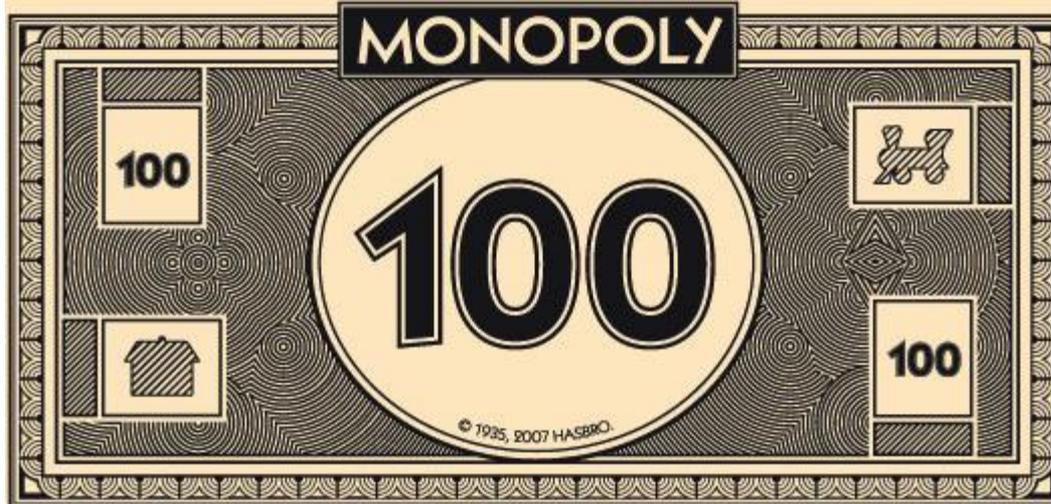
There will be a steady decline from crisis to crisis. And new anti-market and anti-democratic crisis programs to prop up the falling system.

Change will come only after total catastrophe.

Within 10 years **formal** standard of living in Russia on an average of EU's western countries.

Culmination of EU war against competition – The MONOPOLY CURRENCY EURO!

- By creating the Euro monopoly the EU leaders eradicated the last vestiges of a competitive system in Europe and signed a collective suicide pact
- Euro is the ultimate reason for European financial crisis
- Euro in reality a geopolitical project
- Nonsense to speak about need for fiscal union as foundation for euro



USA has similar problems caused by the other monopoly currency – the USD



Shows that a monopoly is in the end detrimental even for the one that seems to enjoy it

Both destroyed the fundamentals of market economy: Interest parity and risk-reward mechanism

Cut off the invisible hand

Because of the euro and USD monopolies, EU and USA now practically planned economies

The Drivers of the Western economies of the last few decades:

- 1980's market liberalism, common market, deregulation
- IT revolution
- Capital markets boom, M&As (leading to bubble wealth)
- Massive debt on all levels (country, corporations, households)
- Debt binge culminated in Euro monopoly euphoria that destroyed the market mechanisms
- Ever since tech bubble burst 2000-2001 USA has been drip feeding the economy with dollar injections

FUNDAMENTALS OF MARKET ECONOMY

- Freedom, market liberalism (Not market economy, but too much regulation was the cause for the crises)
- Competition – Not monopolies
- Debt (in good and bad - too much debt the cause for all crises, cyclicity)
- Risk factor
- Interest rate parity
- Rule-of-law (actually rule-by-justice)

Don't copy Europe of today

Important when you look at Europe and consider what to copy is that Europe's success was not built on the kind of socialism of today.

The success was built on free market and entrepreneurship. And the socialists EU is only enjoying those fruits at the same time when they destroy the roots



NOW TO RUSSIAN ECONOMY



MODERNIZATION? THIS WAS A GREAT INNOVATION BACK IN 1890



NOW THE QUESTION IS HOW RUSSIA CAN REACH THE NEXT STAGE...



Anarchy from late 1980's root cause for ALL problems in Russia

- Gorbachev plunged Russia into a deep anarchy
- Gorbachev's reforms can be considered as the most stupid ever in world history: he expelled state power but kept planned economy
- Compare with China which did it completely the other way around



After difficult years of anarchy, RUSSIA is now finally again a NORMAL COUNTRY

- As a result of Gorbachev's policies Russia was in an anarchy in 1990's
- Only gradually with Putin in the helm has the country normalized



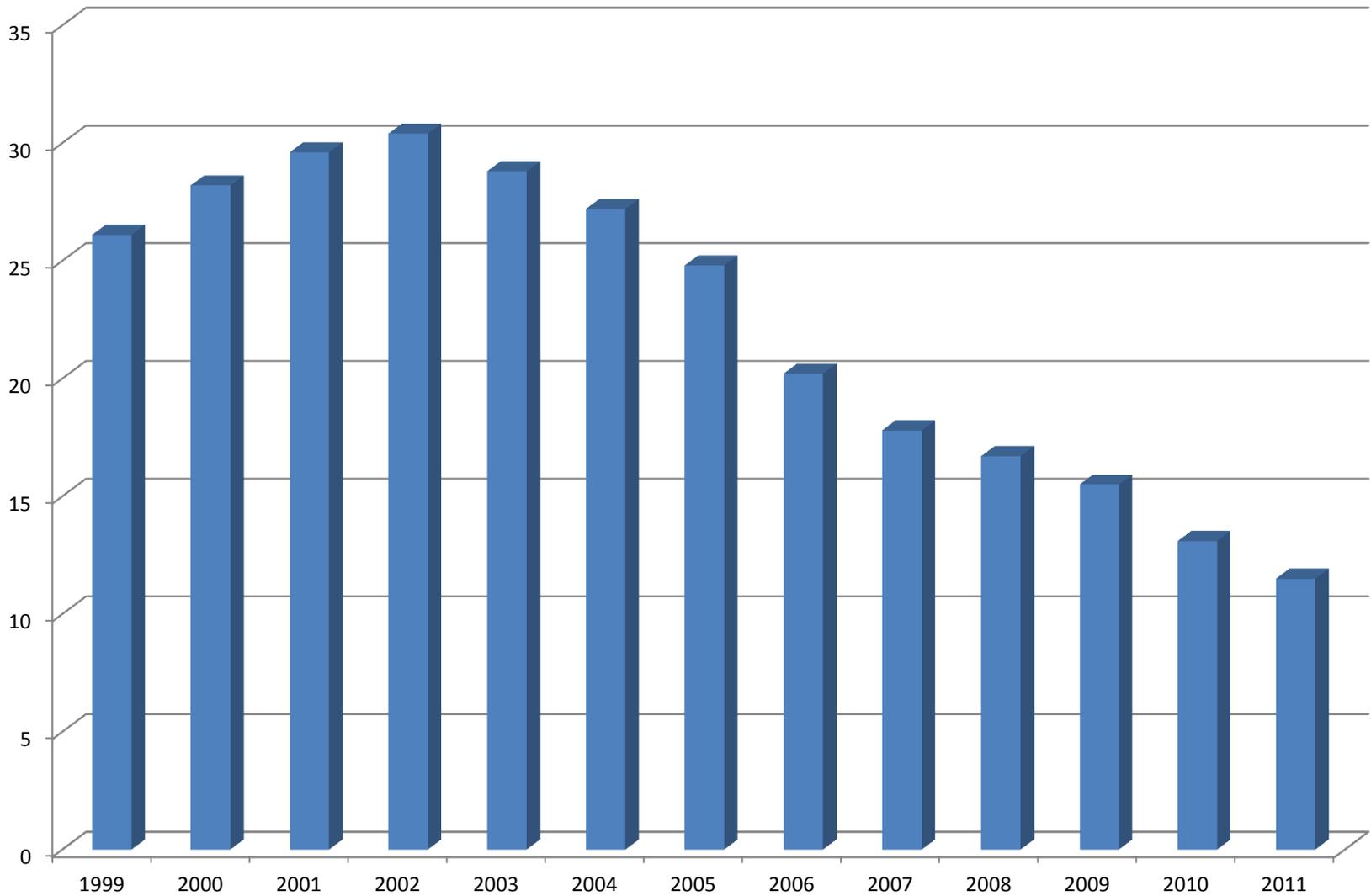
**SOME CLIAM NOTHING HAS CHANGED!
THIS WAS A LOOK AT MEAT IN
1992...**



**...AND THIS IN
2009...**



Murders per 100 000 people



**THREE REASONS
WHY IT NOW MAKES SENSE INVESTING IN RUSSIA:**

- 1. INFLATION**
- 2. CORRUPTION**
- 3. BUREAUCRACY**

DID THAT SOUND STRANGE?

When you look for investment objects you must identify hidden values, chances to improve.

The trend on improvement on inflation, corruption and bureaucracy is now very real and positive.

Few countries offer such promising opportunities for improvement.

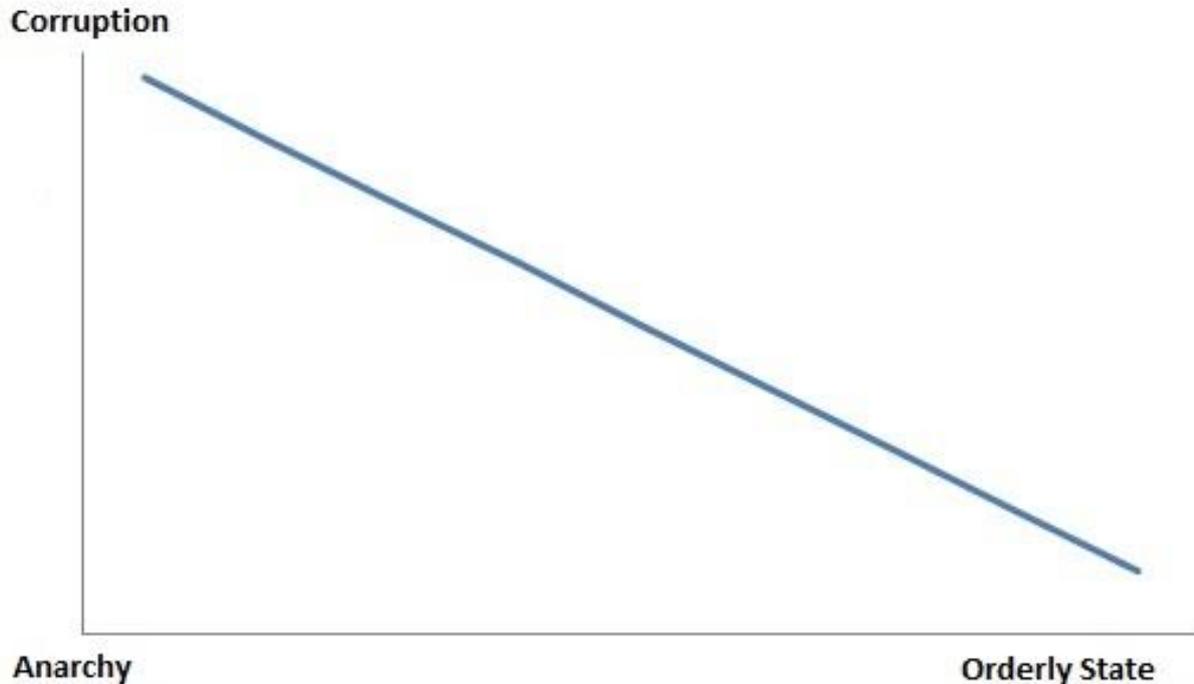
BUT THE SHADOW ECONOMY IS PERHAPS THE BIGGEST PROBLEM

- Siluanov: Shadow economy 15-20% of GDP. Some sources claim it is more than 40%. World Bank: 3.5 times more than in other G8 countries.
- Belousov, Golodets: 20 million people in shadow economy
- Why increase pension age if you have 40% of work force in the shadow?
- Shadow economy, construction, services, agriculture, small and medium sized firms and entrepreneurs
- Russia best country in the world for private entrepreneurship, exempts them from all taxes and all control
- Belousov: SME real share of GDP 40-50% and not the official 20%

THE BAROMETERS OF RUSSIAN ECONOMY

1. Inflation
2. Corruption
3. Bureaucracy
4. Shadow economy
5. Competition
6. Labor productivity

Thanks to corruption, Russia did not fall a part in the anarchy of 1990's!



- In the conditions of anarchy corruption was the only factor keeping the country going
- Corruption fulfilled the vacuum of statehood in Communist Russia and the Russia of Anarchy in 1990's
- Those won that where foul enough to play the game

RUSSIA DOES NOT NEED REFORMS

IT NEEDS TIME

- All major reforms are made long ago, what Russia now needs is time to implement and a lot of work to fine tune the details
- Good examples of what is needed are:
 1. Work on implementing the road maps for improvement of business climate
 2. Implementation of Putin's priority programs (The Presidential Decrees of May 2012)
- These things don't make for big headlines, therefore the lie that Russia is in stagnation and that nothing is being done will be propagated by the political enemies against a prosperous Russia

Drivers of Russian economy in near future (1/2)

Progress in main parameters: Inflation, Corruption, Bureaucracy

- Inflation, can go down to level of 5%, meaning that loan rates could go down with 2-4%

Low levels of debt

- Russia public debt minimal (10% of GDP); foreign debt less than 2% of GDP; EU average about 100% and growing
- Easing of mortgage financing

No stock market bubble

Practically full employment

Huge pent up need for investments and hirings of people

Drivers of Russian economy in near future (2/2)

Increased level of sophistication in policy discussion and means

Putin's drive on improvement of business climate

Putin's socio-economic development programs

Infrastructure development programs (incl. Moscow real estate)

Customs Union (also WTO)

China and Asia markets

Far East development

Need to improve management practices, both state and private

Myths about Russian economy (1/2)

- Not true: State sector and state ownership abnormally big
- Not true: Taxation punitive – 13% highest criteria of liberty
- Not true: Share of Entrepreneurs in Business (Small and Medium Sized Businesses; SME's)
- Not true: Oil price needs to be X USD to balance the budget
- Not true: Size of middle class – Professionals admit it is more than 60% (Nielsen 86% in 2020)

Myths about Russian economy (2/2)

- Not true: Russia does not diversify economy
- Not true: Russia is receiving little Foreign Direct Investments (60 bln 1Q/2013 – same period China 30 bln)
- Capital Flight
- "Beyond Moscow outer ring road there is no life" – In fact, salary difference which was in 1999 3.6 times in Moscow's favor compared with rest of country, now 2.3 (2011)
- Misunderstanding not to consider Russia's economic performance in a global comparison
- No true: No innovative businesses

Thanks!



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