

Doing business in russia research paper examples

[Business](#), [Company](#)



Background

The Russian Federation is the 11th biggest economy of the world in terms of nominal gross domestic product, with about 142 million people living in 6.6 million square miles of land. Russia's gross domestic product for 2011 is estimated to be about US\$ 3.05 trillion, the 6th largest GDP - Power Purchase parity in the world according to the International Monetary Fund (2012).

Russia's market economy is one of the fastest growing in the world, and according to KPMG (2012), has enormous potential in natural resources such as oil and gas, energy and construction. Growth is driven by the country's stabilized political landscape, driving the country to realize an average growth rate of 7% from 2000 to 2008. After a dip in growth rate in 2009 due to the global economic slowdown, the country's economic growth is on the upswing again moving steadily thereafter.

Russia's main exports are oil, natural gas, metals and timber. VM Consults (2011) report that The export of these natural resources have been significant in importance to Russia, with about 80% of their exports increasing the country's reserves to US\$ 597.3 billion in 2008, the third largest in the world. To manage its large cash, Alexei Kudrin, Russia's Finance Minister developed macroeconomic policies to manage its internal capabilities and prepare it for economic shocks such as the on-going global economic slowdown. One of its most remarkable policies was the repayment of its massive debts in 2006 making Russia one of the lowest indebted countries in the world. Russia has a simplified tax code starting in 2001. This simplified tax code, which includes a flat tax rate of only 13% increased state

revenue significantly ever since.

Former Russian Prime Minister Stolypin once said “ give me domestic peace and you will not recognize Russia in 20 years!” This directive is what current Prime Minister Putin has associated with, shedding Russia’s image of lawlessness and backwardness away.

The city of St. Petersburg for example now ranks at the top of the “ Starting a Business” ranking. This is due to reforms that enabled the city to create “ one-stop shops” created for the purpose of completing all start-up formalities in one location. The requisite documents for operations are then sent to applicants through mail.

The following metrics, summarized as part of the Doing Business 2013 by the World Bank and the International Finance Corporation (of the World Bank Group), ranks Russia with respect to 185 other economies.

Russia’s income category is Upper Middle Income, ranking higher in 2013 by six places from its ranking in 2012 of 118.

The country ranks higher in terms of starting a business and dealing with construction permits, as well as in paying taxes, enforcing contracts and resolving insolvency. It’s standings in areas such as registering properties, getting credit, protecting investors, and trading across borders have eroded. The rest of the country’s ease of doing business rank is shown below.

However, Russia is still relatively easy and inexpensive, making starting a business doable in about 23 days at a cost of 2. 3 per cent of income per capita with only about 9 procedures.

What is most useful though, other than the metrics shown above are actual experiences of professionals in setting up businesses in Russia. Lennart

Dahlgren of Ikea wrote about his experience in setting up the furniture company in Russia in 2010 in the article, The Basics of Doing Business in Russia. In his article, he writes that the formula for success is to look at their company rather than look at how competitive or non-competitive Russia is. Instead, setting up business in Russia required 100% commitment, meaning that a company must employ Russian nationals that are available all the time, for business operations. A healthy mix of international employees and Russian personnel should be put together, both having savvy and speedy capabilities to operate, having been fully oriented with the Russian culture and language to enable them to work effectively. These personnel must also know that in many places in Russia, there is some resistance or friction in dealing with foreigners, most of which comes from Russian's themselves fearing to be called "stupid" and therefore put on this defensive front. It is imperative that your company's message of providing true service is your purpose, to curb the difficulty of working with Russians.

In doing business in Russia, corruption will always come up. There is great worry about companies setting up in Russia due to the perceived levels of corruption but it is important that businesses set up their shops in Russia with honesty and transparency as well. Tariffs are important in Russia and are one of the sources of corruption. Companies that wish to make their jobs easier often give in to corruption and pay bribes and with Russia trying to move into more professional business positions, the consequences of being involved in corrupt practices including bring tariff officials can be very severe. It is also important to report corruption to government agencies. Russian officials welcome reports and encourage foreign companies to build

relationships with local authorities this way.

An additional insight is the development of working relationships through internal resources and the decreased dependence on third party agents.

There are many reported incidents of these third party middle men charging exorbitantly, with less and less getting accomplished.

Russians deserve the best goods and services available to them and are extremely proud when it comes to their economic status. Therefore, mirroring the proudness of Russians with the quality of the business 'goods and services is the best way to acquire market share and gain a foothold on the Russian's booming market.

Issues in Doing Business in Russia

There are still several problems with doing business in Russia. The IFC (2012) reports that one problem is the presence of endemic corruption and bureaucracy. Russia ranks as the second most corrupt country in Europe according to the corruptions perceptions index. This is being addressed by local authorities with Prime Minister Putin heralding Russians to increase their Ease in Doing Business Ranking this year. Yet the shadow of the old Soviet Communist era is still a concern to most companies who see Russia as a very " risky" location for doing business, despite the growth prospects of Russia and its strategic importance to world business.

Economic development has also been uneven. Moscow has the largest share of the country's GDP but the other areas are still very much under developed. This is evident because of the lack of modernized infrastructure in these areas. The government is working on improving these infrastructures and will be spending US\$ 1 trillion by 2020 to modernize

Russia's 1990s infrastructures.

Still Russia is one of the foremost emerging national economies in the world, posed to have a bigger impact on the global economic landscape by 2050.

This puts the spotlight back on Russia, a once-feared global superpower now turned into an economic juggernaut.

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