

History and pestel analysis of russia economics essay



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This document is an overview of political, social, economical, legal and technological of Russia. The federation of Russian or Russia is the country which located in the north of Europe and Asia. It is considered as the bridge between those two continents. The country was found in the 12th century, in the history of this state, the country had been through different regime of politic, from Russia imperial era to the Soviet Union, post Soviet democratic till the federation of Russian today. The country shares borders with fourteen different states such as Norway, Finland, China, North Korea and so on. Russia also shares the marine border with America and Japan. It is the biggest country in the world with 17, 075, 400 square kilometres. Russia is one of the countries which are really rich in natural resources. Russia is the land of winter but it does not mean that they have snow all over the year. Russia has variety weather, depends on the region. It can be death cold in the far north to dramatically hot in the desert of the south part. In the country, there is only two distinguish weather which are winter and summer, the other two does not last for long and is not really well defined.

The capital of Russia was named after the Moskva River which starts from East Europe and flows into the Russia's central. The name Moscow was found by Goerge I, Yuri I Dolgorukiy in 1147. Even Russia is a big country; the population is just in the rank of 9th in the whole world with 141, 927, 297 people. In each region they have their own language but Russian is the official language of the winter land. People here follow dissimilar religion, even though there are four main religions which are Orthodox, Islam, Buddhism and Judaism.

The currency of Russia is Rouble. Comparing to other currency such as US dollar or Europe, this currency is currently not a strong one. The natural resources, agriculture and technology play an important part in the economy of this country with the estimation of GDP in 2010 is \$15, 807. The main partners in export are CIS, China, The US and Japan. According to the development of the economy, Russia is considered as the strongest growth amongst the developing countries.

The living standard of Russian decreased after the collapse of the Soviet Union, but it started to improve from 2007 and now it rank at 65. It is the result of the development in economy and politic strategy. The life expectancy for men is 59 years old and 73 years old for women.

Furthermore, the culture side of this country is very comparable to others developed countries. Russia becomes a destination which attracts tourist and other social and culture activities with international scale such as the winter Olympic 2014 in Sochi which will contribute an important part in building up the image of the Russia. From all points of view, Russia is one of the strongest developing countries. With the policies which focus on attracting investors, on the near future, Russia will be on the list of new developed country. This is the main background of the country with some interesting fact of it, further on in this document; each sector will be discussed in detail.

Reasons for Selection

Russia is a developing country with rich in history and tradition. This country in this new century has lots of opportunities and challenges. It plays an important role in the social and political of the world. Russia is the member of different important organization in the world such as World health
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Organization (WHO), United Nation (UN), G8 and G20. This gives Russia a possibility to contribute as well as give out its opinions for the development of the world in term of social, health care, political and economic. In this report, I and my group mates chose Russia as our country for the international trade project is because of three main reasons. First of all, it is a big country with more than fourteen millions of population, this country have the policies in economic which are supportive for the national as well as the international investors. They update the policies bases on the development of their economic in order to facile and make Russia's economy more attractive to investors.

Further, looking to the growth of the business as well as their competitive currency, it is really a promises land for people who want to create wealth and business. Not to mention the fact that they have a big improvement in the economy despite all the natural disaster that happened during summer 2010 and the economy crisis that affects the economy and trade of countries all over the world. Below is the graph which shows the growth of GDP in Russia over years.

Russia-GDP-Growth-Rate-Chart-000001. png

From the graph we can see that even 2010 is not a successful year for Russia's agriculture because of the weather and climate issue; the extension of GDP in the 3rd quarter of the year is at 2. 7, which differentiate the country from others which play main roles in the economy. This figure is a strong proves for all the investors about Russia's economy.

Last but not least, Russia has an advantage of their geographical location. As being mentioned in the first part of this document. Russia is the connection between Europe and Asia. This is the advantage that not all the country can have. It enables Russia to trade easily with countries in Asia such as Japan, China and North Korea as well as other countries in the north of Europe and countries in the European Union. It brings good opportunities for Russia to exchange and gain experiences from the developed countries in Europe. It is an opportunity and also a challenge for this country.

PESTLE Analysis:

Political

In 1993, after the crisis in the constitution of Russia and with the support from most part of the population, the 12th Dec 1993, Russia was officially became the federation of Russia with semi presidential republic. They keep going with the same regime until today. It is very important to have a constant regime and policy to attract more investors. It is also important to have the policies which provide more benefit and advantages for people who want to contribute or get into the business. The current president is Mr Dmitriy Medvedev and the prime Minister is Mr Vladimir Putin.

According to Mr Putin, they do not want to have the copy of the US's political system. Russia's government has it own system which closes to its convention and situation. The advantage of Russia is that it is consider as the country which will take charge of all the roles of the Soviet Union in different international organization. Russia continues the commitment of the USSR with United Nation Security Council and the seats of USSR in other

international organization. Even though Russia is a federation but there is still the involvement between the main government and the region or local government. According to the Human Rights Watch, Russian citizens do not have freedom. Despite the fact that they have a very strong judicial system, the rate of prisoners in Russia is still high at 628 out of 100, 000. It leads to the fact that the prison is not in the good condition and sometime over loaded.

Russia has an open foreign relationship strategy. Until the year 2009, they have official relationship with 191 countries and 144 embassies. It is a good opportunity for the trade and economic of the country, not mention to the fact that Russia is playing a very important role in preserving peace and safety of the world. Another advantage of Russia is that they implemented the technology and the militaries force from the USSR. This country has the biggest store of nuclear weapon with the military which includes navy, ground force and air force. Russia is one of the countries with well developed and home-grown arms industry. They also have the plan of growing their military and put more invest on that until 2015. Russia is in the world first rank of producing and exporting weapons. They are not only producing enough for their own need but also for selling to 80 different countries around the world. It contributes a considerable part in the revenue of this country. The development of technology in military is also support to the position of Russia in the World.

Under this regime and maintain the same foreign relationship policy play the major role in the stability and growth of the country's economic. With the strong and peaceful relationship with others countries, it is push factor for <https://assignbuster.com/history-and-pestel-analysis-of-russia-economics-essay/>

Russia to expand the economic as well as attract more and more investors from inside and outside of the country. The political side takes the main role in order to run the business of the whole country. It is the main feature to keep the stability of the social as well as the economic. The investor needs to have the impression of safety and security as well as the space to grow inside the country in order to persuade them to invest in the country.

Economic:

The economics of Russia depends mainly on the natural resources. There are two major resources, oil and gas. This country has the GDP in the rank of 10th. biggest in the world. Russia is the country with the advantage of natural resources, the big area with the area for agriculture 4th largest in the world and a perfect location between Europe and Asia. Despite all the advantage that the country has, its economic is not comparable to other countries in Europe. It is because the growth of the economy of Russia is depending on the price of the oil in the market.

Russia-GDP-per-capita-Constant-Prices-Since-2000-Chart-000001. png

It is shown from the chart that the economy is growing instantly. The problem of Russia's economic is that it is too dependent on the price of crude oil. In order to cope with this situation, the government needs to have a conventional budget to deal with the productivity of the labor. Along with that, they should have a reasonable tax system and a suitable monetary policy that makes the ruble become the competitive currency but also make sure the price is not too low.

In order to have a strong economy situation, they also need to pay more attention on the education of the new generation. The change of the political regime and the economic system lead to the fact that they need more people with open minded, flexible and willing to learn and be active in the economic. It is another weakness that make Russia position is lower than others european countries.

Another challenges for Russia's economy is that the process of tranforming from communism to free market was later than the other countries in the West. Russia got into the post - industrial economic after other so that there is the gap between Russia's economic growth compare to other developed countries .

Russia is the country with resources, high technology and labor. In order to fulfil the space between Russia and other contries, Russia need to have a policy that get them out of the Soviet Union's shadow. They need to chose the right market for their product.

Social:

From 1990, with the changes in the regime of politic, the society stepped forward. They convert from a society with autocratic structure to a society with democratic character. This change enlarges the gap between the poor and the rich people in the society. Even there is no obvious classification structure in society, the stratification is judged by wealth. The most obvious evident of capitalism in the society is that people started to spend in a wasted scale with expensive cars, clothes and outfit that a normal Russian can not afford. The revolution in society structure leads to the changes in

mentality and mindset. For example, People have different perception toward the family plan. From 1990, the rate of birth is decreasing remarkably, along with that is the increasing of death rate. The death rate is raising cause of the health care system. In Europe continent, Russia is one of the countries that being affected strongly by HIV and alcohol poisoning.

300px-Natural_Population_Growth_of_Russia. PNG

Birth rate

Death rate

Natural growth rate

A part from that, we can not mention to the development of the social activities. The development of entertainment and social activities contribute a main part in the improvement of Russian's living standard. Russia is well known with literature, music, ballet dance with all the famous artist, composers, and philosopher such as Leo Tolstoy, Tchaikovsky, Pushkin and Lenin. Russia is also known for all the sport even with international scale such as summer Olympic in 1980 and winter Olympic which will be hold in 2014. The life in some of the big city such as Moscow, St Petersburg is as lively as the life in New York. Moscow and St Petersburg are the most popular venue for MICE industry (Meeting, incentives, conferences and exhibition) with professional service, high technique support, good facilities as well as social activities. Russia is a folklore country which is always a mystery for everyone to discover.

Technology:

Russia is a country which is rich in science tradition. The technology sector of Russia started to be recognized from the early of 18th century and continue to develop until today. Russia has a good reputation on science and technology with the contribution of Mikhail Lomonosov, Pafnuti Chebychev and so on. They many impressive work of art in different filed such as Mathematic, Chemistry, Structural engineer, earth science and aerospace engineer which contribute a significant part in the development of the country's technology. Because of the advance in this field, it contributes to the position of Russia in many different international organizations. The well developed in military materials and weapons add a stronger voice to the role of maintaining peace and security of Russia and all the countries around the world.

In the 20th century, the whole world was surprised because of their advance in aerospace engineer. Russia was the 1st country who sent people in the space. Not to mention the fact that Russia's air craft is on the list of the most produced air craft. The 20th century is not only the notice moment for the development of technology for Russia itself but also for the whole world with a new generation of knowledge. Even they have a good base and remarkable success in technology but somehow it does not contribute much to the revenue of the country. In contrast with the development of the technology is the economic. They have the economic which mainly depends on exporting oil and other natural resources. The development and success of the economic is totally depending on the price of the product in the market. Russia can not take the initiative on the growth of economic and which

direction will it go. In order to be more active in the economic, it is the must for this country to focus a product where they are really in advanced compare to other countries.

Noticing the important role of technology and its effect to the development of economic, the president, Mr Medvedev has paid more attention on the modernization and advance technology such as Rosnano and Nano technology. The government started to put more fund on this field and they are ready to support any of Russian who want to develop their career in this field. The aim of this is to get the best out of the Russia. Looking back to the Soviet Union era, compare to now, and the technology industry of Russia is far behind other countries. Technology has to be things that made in Russia and by the innovation of Russian. The most important thing at the moment is that they need to motivate people, they need more innovation which can be leapfrog their own success in years behind and also to conquer with the well developed science and knowledge of other Western countries.

The president wants to develop the technology side which already has the strong base, thanks to the Soviet Union's knowledge and development in this field. With all the work of science from years ago, it is very positive that Russia will take back its place of leading in the technology industry. He believes that with the technology of Russia can take advantage over the western with the advance technology. The success of this will push the expansion of trade and industry. It opens a new opportunities to grow in economic, which make the trade of this country becomes more and more initiative and be more active with the changes of market. With the success in

this plan, there will be the big improvement in living standard, help the country out of inflation and the increase of unemployed rate.

Legal:

On the way of developing and transforming itself from a communism to a capitalist country, Russia also changed its law in order to match with the new regime. The new law is more Western approach, very systematic and market oriented. It is totally different from the law of the Nordic countries. The new law of Russia is mainly based on the legislation, so that why there are still some gaps on the law system. The corruption rate is still high in the last few years:

According to the transparency international organization, in 2010 the corruption rate of Russia is staying at the rate of 2.1 which is considered as one of the countries which have very high corruption rates. This takes into consideration for people who think about investing in this country.

Above is the chart to calculate the degree of freedom in the trade and industry of Russia. In order to attract more investment, the government passed the law which makes no difference between foreign investors and national investors. Even though there are some areas that foreigners must have the improvement of the government in order to get into the business. It is the strategies that focus the investment of foreigners in some of the sectors which are in need of it. There are also some other restrictions in terms of ownership as well as payment. However, there is a need for changes to reduce the corruption as well as to be more open to investors.

Balance of payments

Russia's Balance of payments history from 1995 ~ 2010

From year 1995 to year 1997, the current account of Russia decreased from 6963 million US\$ to negative 80 million US\$ because of the Economic crisis in 1997 which reflected less import and investment from foreign country.

During Vladimir Putin Presidency, he had led Russian's current account to a downward pressure on exchange rate and the opposite of upward pressure on Russian's ruble. Therefore in year 1998, Russia exports and imports were growing because of the devaluation of ruble. Coming towards year 2003, Russia's has grown from 35410 million US\$ to 94367 million US\$ in 2006. However, in 2007 the current account of Russia had shrunk by 18% to 78390 million US\$. With the decreased of current account surplus, it reflected an increased in foreign reserves funds to 148. 9 billion US\$.

In year 2008, the current account had a positive growth of 102400 million US\$. The reason is because of the volume of exports and imports increased. Throughout the year from 1998 to 2008, Russia depends on their main export of oil and gas which gave them a positive surplus on current account and trade balance. Therefore in mid 2008, both economic and exchange rate policy had backed up by the balance of payments with the measures of government in order to overcome the crisis.

However in 2009, Russian balance of payments was affected by the external economic situations as well as the loss of confidence by the investors towards the market of Russia. This had made Russia's economy decrease in financial account operation.

The current account dropped 50% to 47514 million US\$ because of the economic crisis. In year 2010, the balance of payments increased by 47% to 77569 million US\$. The total exports revenue has a number of 398 billion US\$. Within this amount, 300 billion US\$ came from oil and 98 billion US\$ from the gas.

Trade Balance

Russia's Trade Balance history from 1995 ~ 2010

Trade balance (in bln US\$)

From year 1995 until year 2000, the number of goods that exported from of Russia started to grow, where as goods the imports to Russia decreased. However starting from year 2000, Russia's export rate maintain on a constant growth which reached 411 Billion US\$ in year 2008. With this stable growth; it had led Russia to a stronger economy. In addition, with the substantial growth within year 2000 until year 2008, each of the years Russia had gained a lot of surplus, mainly because the exported goods was more than imported. In year 2000 until year 2008, the surplus had increased from 67 billion US\$ to 131 billion US\$.

With the sufficient trade surplus, Russia invested a lot on their country's resources such as gas and oil rather than invest on other economy sector. The investment had made Russia become the dominance player on energy resources. Besides that, Russia's main revenue came from exported products. Goods that Russia exports such as petroleum products, wood products, metals, natural gas, grain, chemicals, and a wide variety of civilian and military manufactures. Main imported were vehicles, plastics, machinery

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and equipment, medicines, iron, steel, consumer goods and metal products. The main export countries are Netherlands, Italy, Germany, China, Turkey and Ukraine.

Russia chooses these neighbor countries because Russia has the fundamental pipelines and storage facilities to supply them with energy sources in the most cost effective ways. Therefore, Russia became dependent on European markets as well as the power to control over the domestic markets. In 2004, Exports earning started to have multiplier effects which generated above 50 billion US\$ each year until year 2007. The main reason is because of the European Union, 29% of natural gas and 26% of oil are imported to European countries. In 2008, the energy sources demand had increased almost twice as in year 2004, 40% of gas and 33% of oil were exported to those countries. Moreover in year 2008, Gross Domestic Product of Russia reached to the highest point at 1. 677 trillion US\$, which had made Russia the world's 8th richest country.

Besides that, as the world's 8th richest country, Russia made 471. 6 billion US\$ of export in 2008. Unfortunately the result turned out bad in year 2009. It decreased 37% and amounted 295. 6 billion US\$ export rate. Imports slightly decreased as well, from 291. 9 billion US\$ to 196. 8 billion US\$. The trade surplus decreased from 119. 1 billion US\$ to 91. 8 billion US\$. The main reason is because of the economic crisis on late 2008. The crisis effect the exchange rate badly, the value of Ruble it decreased from 24. 853 Ruble per 1 US\$ to 32 per 1 US\$.

One of the main reasons is because of oil prices, the price fall from \$150 to \$39 a barrel as Russia depend on energy source's market. The world crisis led Russian's companies' access to cheap foreign credit. Business, companies and employees started to reduced working day or even fired staff as well as the bank, they increased the interest rate caused less investment and scaled down mortgage program. Money value depreciated caused them to spend more on exporting their resources. Therefore, Russia's capital flows reversed tremendously in 2009.

Besides that, GDP (real growth rate) decreases from 5. 2% from 2008 to -7. 9% in 2009. A GDP decrease is because of negative result from exports, import, personal consumption expenditures and investment. On September 2008, Russian's president Dmitry Medvedev ordered ministers to put in 500 billion Rubles of state budget funds into the market in order to rebuild the financial system of Russia. In 2010, Russia's economic got back to the normal status because of the rising price of oil and improved capital inflows. Exports earning has a number of 350 billion US\$ and 237 billion US\$ on Imports.

In year 2025, we predict that Russia will become the top 10 best economy country. The economy of Russia will be strong mainly because of the sufficient natural resources. Apart from that, it is the fact that the world's oil resources is getting lesser and lesser, this benefits had given Russia to increase in their oil prices and generates more revenue in exports. In 2025, Russian's oil and gas exports enabled Russia to become the energy dominance market in Europe once again. With location, currently Russia is in the middle of China and Europe which is the fitness location to trade.
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Despite of the location, we believe that Russia's government will remove some of the import restrictions to improved relations mainly with China. With the investment flows from China, we believe that it will strongly boost Russia economic as China will be the most developed country in the future. The surplus will keep on track with strong exports and weaker imports.

Therefore, we believe that in the next 10 years Russia will have a deficit free budget because of the exports of oil and gas as well as GDP maintained at 3.5%. In 2010, foreign investment in Russia accounted on 301 billion US\$ while in the next 15 years we accumulated investment will grow twice as year 2010 to 600 billion US\$. It is estimated that oil extraction in Russia could fall by 20% in year 2025.

Besides that, Russia's oil and gas pipeline and refineries almost reach the end of their " vitality" as well as the aging oil field had made the companies in Russia think that it is too expensive to discover new oil fields. As a result, we predict that in the future, Russia government will create better conditions for investor to invest in oil and gas system and bring in better technologies which can provide better return in gas and oil production. Although in year 2025, the global economic had regained its momentum as well as the global energy resources price had leveled off. Countries such as Iran maybe reentered the global gas and oil market. Therefore, there is an increase in supply of oil and gas which will result a decrease in energy prices. As a result, we predict that before year 2025, economic downturn once again occur which will badly affect the economics of Russia. In addition, we also agree with BRICS, they had forecast that in 2050 India and China will become the dominant market of goods and services manufacturer. On the

other hand, Russia and Brazil will become the dominant market of raw materials.

Exchange Rates

In 1998 Russia was undergoing a major financial crisis which in fact started in the Asian market. Russia mainly depended on their natural resources to keep the flow of currency stable.. Inflation during that period rose to roughly 84%, creating no value for the Ruble. Due to this the price structure for basic commodities also increase by over 100% as the currency value kept depreciating. Russia then regained stability as the demand for oil increased which enabled their exports to reduce inflation. During 2000 and 2002, the value of the Ruble became stronger leading to the exchange rates for other currencies. The Graph above illustrates how the exchange rate average was compared to the United States dollar and the Euro.

The government mainly focused on reducing the inflation rate and believed that by doing this, it would have a positive impact on the exchange rate. Within the period from 2002 to early 2007 the USD dollar prices increased steadily. In late 2007 when the global financial crises hit, the value of the ruble decline and people began to exchange the ruble to the US dollar and euro. A plunge in the value of the USD was due to the financial crises but as towards the end of 2008, the values on the exchange rate increased

The current position of the ruble is valued at 0. 033 USD and 0. 024 Euros. As Russia is considered to be a fast growing economy, the value of the ruble would gradually become one of the most dominant currencies to trade with. As majority of the European countries get their oil and gas supplies from

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Russia, they would as a result increase the GDP within the economy.

Depending on how the US markets would be developing, if they become stronger and the value of the USD becomes much stronger then it would slightly depreciate the value of the ruble. Another factor would be the foreign investment which could contribute in determining how strong the value would get. The major benefit is the oil exports as that brings majority of the revenues towards the economy and future prospect of trade with major countries would be an assurance to the money supply stream.

After the global economic crisis, Russia had to set its path to recovery, stabilizing all sectors which are their co-components holding their economy in place. Below shows a graph of the inflation trend throughout 14 years;

In 1998 and 1999 we notice that the inflation had boost up tremendously due the Asian financial crisis. Moving from a centralized to a free market system, it was difficult for them to implement fiscal reforms which mainly emphasized in raising government revenues and relying on short term borrowing in order for them to finance their budget deficits. The major export earners having lower prices together with a lack of confidence levels from their investors made the situation even worse off. A sharp steep decline in the value of the ruble created hyper inflation within the economy. After recovering from the major financial crisis, the economy enjoyed a reasonable growth average for a strong 9 years. The inflation rate kept decreasing year by year as strategies were put in place to monitor key economic reforms such as labor, tax brackets, banking, and favorable prices implied to commodities. When the global financial crisis hit the economy, their stock market collapsed as top businesses began to sell their shares in order for <https://assignbuster.com/history-and-pestel-analysis-of-russia-economics-essay/>

them to pay off some of their debts to international lenders. The global demand, the prices of goods as well as the tightening of credit prevented the economy from growing. The major factor during 2001 and 2006 was of the government growing surpluses by saving some of the revenues from oil exports. The revenues were then generated into the economy in order not to face most of the impacts of the crisis. The inflation rate last recorded in 2010 was 5.5% and has now a very strong stable economy. They noticed that they had passed the crisis phase and as a result began to develop new strategies in order to overcome other pressures. As the government is monitoring the inflation rate carefully and with statistical data shows that the inflation rate has been kept at a minimum level and the government does control it even in crucial times. This would not be one major factor for them to consider as their GDP is increasing constantly though the financial crisis which had a small impact on it.

Looking at the GDP rates shows a marginal difference within the last decade. Again the recession played a part in lowering the standard of living in 1998 and 1999. A steep increase in investment enabled the GDP to increase severely and maintained the standard growth.

By 2008 the GDP almost increase by 5.6% but the decline forced the value of the Ruble to decline marginal and as a result their dominating industry of oil and gas exports also crashed to a certain extent. Currently the GDP of real growth rate is approximately 3.8% and is said to increase it to 4.2% by the end of this year. The current GDP per growth rate

Analysts believe that if continues growth of the GDP would be constant, Russia would be considered one of top 5 countries with the largest economy. They predict that the GDP will almost double within the future decade having a rate of 14 to 16%. The table below shows you statistics taken by the IMF and the World Economic Outlook. I strongly believe that the GDP would increase to that level as their exports are increasing for oil and gas. This is one major benefit which would help them in times of recession and also to maintain their GDP.