

**MANUFACTURING: Foreign car firms happy to agree to localisation requirements to enter the Russian market**

# Auto industry goes into high gear

The industry is booming, and incentives given to foreign car-makers will ensure the joy ride is here to stay.

ANDREI SHKOLIN  
RIBR

The car market in Russia is on a roll again. Nearly all global brands such as Ford, Toyota and Volkswagen have pitched their tent here, and are vying for a bigger piece of the auto cake.

Private car ownership, shunned in Soviet times as an alternative to public transportation, has seen an unprecedented boom in Russia since the turn of the century, with 12% growth in 2012 alone.

A major factor spurring Russia's automobile boom has been, somewhat ironically, the same high oil prices that have hit American car owners for the last decade. Russia is the world's second-largest oil exporter. The escalating oil prices have seen Russians' nominal monthly incomes go up by a factor of 16 over the last decade.

The world's auto giants were quick to notice this surge in consumption. Ford was the first to move into Russia in 2002 opening a \$150 million plant in Vsevolozhsk outside St. Petersburg. It was followed by Renault (2005), Volkswagen (2007), Toyota (2007), G.M. (2008) Peugeot/Citroen/Mitsubishi (2010) and Hyundai (2011).

The number of domestically assembled foreign cars sold in Russia increased from 290,000 in 2007 to 1.22 million in 2012. This

figure is expected to hit 1.33 million this year, predicts PricewaterhouseCoopers.

The Russian government's policy of incentives has paid rich dividends, and has brought in the much-needed foreign technology.

UBS analyst Kirill Tachennikov says: "Although the current documents outlining state policy in the automobile industry don't say this explicitly, one can clearly see between the lines that the aim is to localise assembly and reduce imports."

The contracts signed between 2005 and 2007 had soft localisation requirements (up to 30%) and low volumes (some as low as 25,000 cars annually), enabling foreign giants to test the Russian market.

Agreements in 2011 with Renault-Nissan, GM, Ford and Volkswagen stipulated that local components are to reach 60% with an output of 300,000 cars annually each. 30% of foreign car brands produced in Russia are also to be equipped with locally produced engines and gearboxes. In exchange, the companies have been promised duty-free import of components until July 1, 2018.

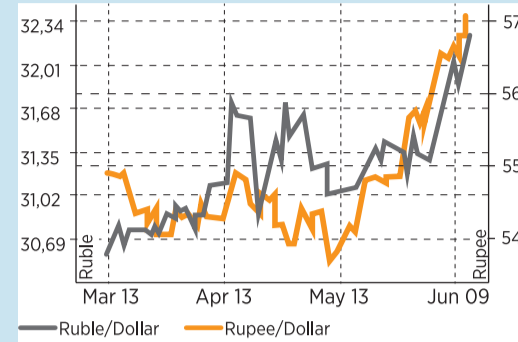
Russia's Industry and Trade Ministry predicts continued growth of the country's car market to 4.17 million units by 2020. Around 3.75 million cars are expected to be produced in Russia by that time.



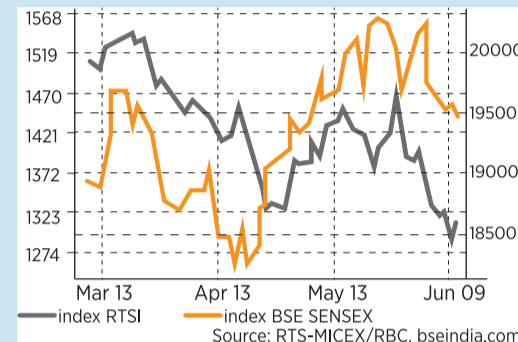
FIAT passenger cars assembled in Russia by SOLLERS Group of companies.

### FIGURE IT OUT

#### Ruble/Rupee dollar rates



#### Stock market indexes

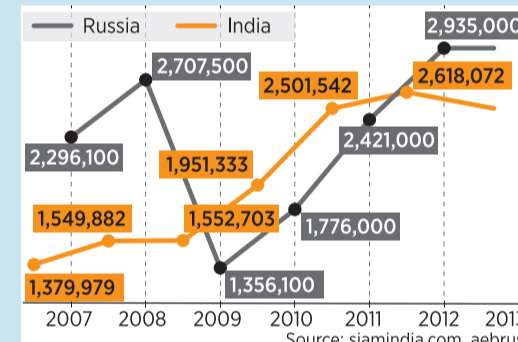


#### Russian stocks to watch

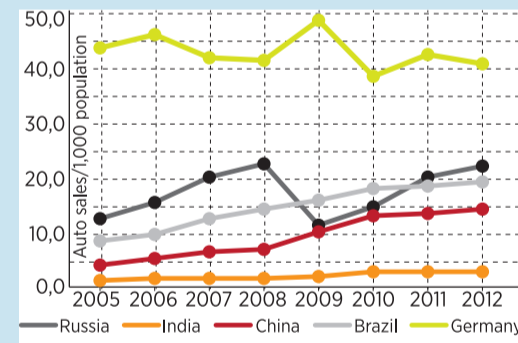
Company	Sector	Monthly Gain
Moscow Stock Exchange	Finance	+15%
Transneft	Oil pipelines	+14%
Alrosa	Diamonds	+8%
Sollers	Automotive	+6%
Gazpromneft	Oil	+6%
Megafon	Telecoms	+5%

Source: RBC

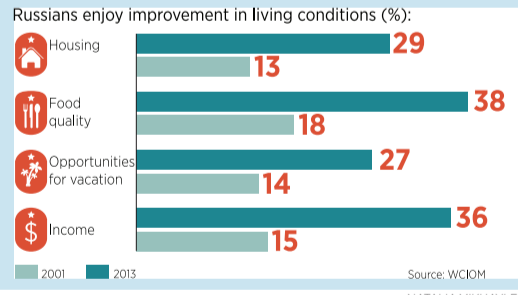
#### Car market: Annual sales



#### Auto sales per 1,000 people



#### Poll on living standards



**BUSINESS: Used for paying phone, TV bills; India has over 2000 outlets**

# From Kazan to New Delhi: Qiwi strikes it rich, spins success story

Russia's top instant payments system has increased its earnings ten-fold in India through a franchising deal.

YELENA KISELEVA, VLADISLAV NOVY  
KOMMERSANT

Russia's leading operator of instant payments Qiwi is scaling new heights in India. The profits of the company, from its Qiwi India's money transfer system, have soared ten-fold to \$50 million for the past year, making it one of the group's most high-growth markets abroad.

Qiwi's business in India is franchised, not run directly by Qiwi from Russia. It's promoted in the country by Marat Zagidullov, a mover and shaker from Kazan, the capital of Tatarstan. He got involved in business in India 18 months ago.

Zagidullov owns 25% of the shares in Qiwi India, the Russian group's franchising partner, while Qiwi group's affiliate Rio Grande owns 50% and the other 25% is owned by another Russian businessman, Valery Yeliseyev, according to a source close to Zagidullov. "India has very liberal legislation regulating the acceptance of payments, which makes it very attractive for foreign investors," said the source.

India is just one of 11 countries where Qiwi operates under franchise. Others



include China, Argentina and Peru. In the US, Brazil and another six countries Qiwi operates directly, while in Serbia, Latvia and Bulgaria, it works under a licencing agreement.

Two years ago, Qiwi moved into the Indian market, buying up Freshpay IT Solutions PVI, an electronic payment system operator in India, for 25.2 million rubles.

A few months later, Qiwi sold 25% of its Freshpay shares to a local partner, and six months later recruited another local partner, selling another 25%.

By the end of 2011, 50% of shares in Freshpay belonged to Qiwi, and 21% belonged to Single Payment Solutions, an Indian payment kiosk operator. In 2012, Qiwi disposed of its shares in both companies, and decided that franchising was the way to go.

Qiwi India has more than 1,000 sales outlets, including about 200 kiosks in Delhi and in two neighbouring states. Indian customers use the Qiwi payment system mostly to pay for utilities, in particular electricity and water supplies, such as through water supply company Delhi Jal Board.

Delhi residents also use the Qiwi system to pay their phone bills, digital TV bills and consumer credit payments. The average payment is Rs 150-200.

Globally, Qiwi manages a network of 169,000 payment terminals and kiosks, making money from commission on the payments. The system is used by more than 40,000 vendors.

Besides, Qiwi also earns revenues in partnership with Visa from payments made in its online wallet system (now 11 million accounts). The virtual wallet brings in 30% of earnings and is growing by 80% year-on-year, while the rest of the business has grown by 14% YoY, according to Seeking Alpha analysts. Qiwi profits grew by 88% in 2012 to 808 million rubles (\$27 million).

# Russia gives luxury goods' sales a boost

ALEXANDRA KREKNINA  
Vedomosti

Bucking the global recession, the global luxury goods market has continued to soar to double-digit growth in 2012, thus expanding 10% to 212 billion euros. Europe accounts for a third of the share, according to Bain & Company's Luxury Goods Worldwide Markets Monitor Report. With demand stagnating in the domestic market, Russian tourists are emerging as an increasingly important target group for European luxury brands, says Bain & Company partner Claudia D'Arpizio. In Dubai, for example, Russians proved to be the biggest spending non-resident group, she says.

Kira Balashova, COO of Jamilco, an official distributor of luxury and premium brands in Russia, is grateful to Russian tourists for playing the saviour. "Russian tourists have effectively rescued the European market during the ongoing Eurozone crisis," says Balashova. "Russians tend to spend more during their trips than other European tourists and are willing to pay in order to have a good time," stresses Anastasios Liaskos, Secretary General of the Greek Tourism Ministry.

The UN World Tourism Organisation estimates that Russians spent \$43 billion on international tourism in 2012, thus placing them firmly among the top five in terms of holiday spending.

### BIG PICTURE

# Big Brother! Why is US spying on India?



M. K. BHADRAKUMAR  
Foreign policy analyst

The Guardian newspaper's startling disclosures regarding the US National Security Agency's top-secret data-mining tool, called Boundless Informant, pose a big intellectual challenge for India's strategists and political class. Simply put, it means that we are being spied on by the US' top intelligence agency as a nation of naked apes.

Just consider that James Clapper, Director of the NIA knows everything that is needed to know about our political class. Our senior politicians almost without exception use BlackBerry; they do social networking; they converse over "Skype". Conceivably,

the movers and shakers of India's power calculus - be it Rahul Gandhi, Narendra Modi, P. Chidambaram, A.K. Antony or L. K. Advani - all depend on the US-based internet servers.

Most certainly, our top intelligence czars and army commanders use cell-phones. So, what does it all add up to? Clearly, the damage to national security and our self-respect as a sovereign nation is incalculable.

Yet, President Barack Obama rationalises the US' cyber crime on the world community. He says, "In the abstract you can complain about Big Brother and how this is a potential programme run amok, but when you actually look

at the details, we've struck the right balance." Pray, what is the "right balance"? In Obama's own words, "You can't have 100% security and also then have 100% privacy and zero inconvenience. We're going to have to make choices as a society. There are trade-offs involved." Obama thinks it is fine that for the US' absolute security, it has the right to invade the privacy of the world community.

But then, the US also has a deplorable record of double speak when it comes to "counter-terrorism". Didn't David Headley use a cellphone? Didn't he use email? There can be no beating around the bush now that the US didn't know anything about what Headley spoke and did during his numerous covert missions to India for planning the horrendous terrorist strike in Mumbai in November 2008.

Without doubt, Boundless Informant challenges the very founda-

tions of the US-India security partnership. India happens to be one of the principal targets in the Boundless Informant's "global heat map" where countries are graded in colours - green (for the least amount of surveillance), yellow, orange and red. India is coded orange and out of the total 97 billion pieces of information culled by the Boundless Informant in March alone, India accounts for 6.3 billion. That works out at 15% of all information being tapped worldwide by the US's spy agency.

It is time our pundits reworked their trade and learned to view the paradigm shift in world politics through the Indian prism.

The views expressed are the author's own.

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## NEWS

## Vikramaditya steam turbines repaired, set for final trials



Russia's Baltiysky Zavod shipyard in St. Petersburg has finished repairing the engine and steam turbine equipment of the Indian aircraft carrier Vikramaditya, making it ready for final sea trials. According to the Sevmas shipyard in Severodvinsk, where the aircraft carrier is now, the ship's boilers will be tested extensively during month-long sea trials in the White Sea, followed by flight tests in the Barents Sea on August 3. RIBR

## Joint design of ITER test blanket modules

The 3rd Russian-Indian working meeting has addressed joint computation, design and trial operations underlying the concept of test blanket modules with a ceramic breeder and liquid-metal coolant. The Research and Design Institute for Power Engineering hosted a meeting of developers of the trial programme for the ITER test blanket modules. The next meeting is scheduled for spring 2014 in Mumbai. RIBR

## Su-30MKI fighters to be set up at Tamil Nadu air base

Indian Defence Minister A.K. Antony recently inaugurated the first air base of the Southern Air Command of the Indian Air Force at Thanjavur, in Tamil Nadu, where Russian-made Su-30MKI fighters will be stationed, says India's defence ministry. Thanjavur is the first air base in south India. The inauguration ceremony featured a flight by Su-30MKI fighters. Some 16-18 aircraft will be deployed at the air base in 2017-2018. RIBR

## GLONASS seals deal with TechMahindra for joint projects

Russia's JSC Navigation Information Systems has signed an agreement on cooperation in navigation with India's TechMahindra. They intend to develop services based on the use of GLONASS / GPS signals in India. In particular, the partners plan to jointly develop such projects as the monitoring of all types of transport, navigation solutions for the police and intelligent transportation systems for large cities. RIBR

## Ranbir Kapoor's 'Jawaani' set to charm Russians



Bollywood heartthrob Ranbir Kapoor's film 'Yeh Jawaani Hai Deewani' will be released in cinemas across Russia soon. The blockbuster is set to recreate the magic of his grandfather Raj Kapoor, who remains a legend in Russia till this day. RIBR

## TRENDS: Mechanical engineering, nuclear power, aviation and precious stones future growth areas

## 'Bilateral trade can reach \$40 bn'

India-Russia bilateral trade has declined in the first four months of 2013, but analysts are confident about the long-term outlook.



Sakhalin-1 remains the signature India-Russia joint investment project in Russia.

AJAY KAMALAKARAN  
RIBR

The first four months of 2013 witnessed a dip in bilateral trade between Russia and India, with Russia's Economic Development Ministry putting the number at \$3.2 billion, a decline of about 27% from the previous year. This may sound like

gloomy news, but it looks like it's a temporary setback. Economic analysts are optimistic and believe that the two strategic partners are on the right track to scale up their bilateral trade to \$40 billion in the next few years. Exports from Russia to India fell by 37% from January to April 2013, while imports actually rose by 12.7%. "In spite of all the difficulties, I believe that trade

between Russia and India has the potential to reach \$40 billion, and this should happen within the next three to four years, assuming a favourable macroeconomic climate in both countries," says Narek Avakyan, an analyst with Aforex.

A key factor in bilateral trade is the Indo-Russian Bilateral Investment Promotion and Protection Agreement

(BIPA), which was signed in 1994. Moscow has requested New Delhi to amend the agreement with clear-cut safeguards to protect large-scale Russian investments. "We actually suggested that our Indian colleagues modernise our current agreement to some extent," Ekaterina Mayorova, a senior official at Russia's Economic Development Ministry, told RIBR. "This agreement was signed in 1994, and since that time our approaches towards concluding agreements on protecting investments have changed several times, and the standard text with which we start negotiations has changed too," Mayorova said.

"Bilateral Investment Promotion and Protection Agreements with various countries, including Russia, are currently under review by the Ministry of Finance," India's Minister of State for External Affairs E. Ahamed said in May.

RBS President and investment expert Timofey Sholtes believes that trade relations continue to develop at a high rate thanks to active dialogue and coordinated activities. "The fact that we have a long trade history with India is certainly important, but we can't ignore the fact that each country has its own specific ways of doing business — one country has a high level of corruption, for example, while the other is not exactly transparent with its business processes. This creates some serious obstacles and hinders the development of joint business," said Sholtes.

Other analysts like FIBO Group's Anatoly Voronin are optimistic about the trajectory of the Indo-Russian bilateral trade. "There is room for increased

cooperation in the military-industrial complex as well as in mechanical engineering, including nuclear power plant construction and the supply of technical and aviation equipment, and pearl and precious stones and metals," said Voronin. "In return, India can supply medicines (one of the biggest areas), tea and coffee. They can also help set up joint enterprises (investment) in various fields including oil production enterprises such as Sakhalin-1."

Sakhalin-1 remains the showpiece Russian-Indian joint investment pro-

## Moscow has asked New Delhi for legal safeguards to protect large-scale Russian investments.

ject on Russian soil, with ONGC Videsh Ltd owning the rights to 20% of the production. The main Russian projects in India are the Kamaz truck assembly plant, which opened in February 2010 and the under-construction butyl rubber plant (jointly owned by SIBUR Holding and Reliance Industries), which will have a production capacity of 100,000 tonnes a year.

Aviation is another emerging frontier. A preliminary agreement has been reached with Aviatech on the delivery of ten Sukhoi superjets to India, with the end users expected to be Air India and Go Air. Russia has also expressed interest in cooperating in the production of individual components for the Irkut MS-21.

## Mapping the future of safe nuclear power

ANDREI REZNICHENKO  
Specially for RIBR

When we founded the World Association of Nuclear Operators (WANO) 24 years ago, Russia's nuclear sector needed help. Today, the world needs Russia's help and experience in developing nuclear power, says WANO President Duncan Hawthorne. This viewpoint is bringing together leading global experts, executives and officials for the International Ministerial Conference on Nuclear Power in the 21st Century in St. Petersburg at the end of June.

The world's nuclear power market, estimated at \$133 billion in 2011 by Rosatom (Russia's state nuclear energy corporation), is at a critical juncture amid waning post-Fukushima public support and increased competition from the shale revolution and alternative energy sources. Nonetheless, Rosatom predicts booming global demand for cheap energy to push the market to \$300 billion by 2030.

"Now, everybody wants the safest technology available. Globally, if you compare how many contracts we signed after Fukushima with the

number in, say, 2010, it's practically doubled," says Rosatom press officer Vladislav Bochkov. He argues that due to the 1986 Chernobyl experience, Russia is best placed to guarantee safe nuclear power. "The Chernobyl accident gave us an additional impulse to develop ever more sophisticated safety systems at our nuclear power plants," says Bochkov. "The 'melt trap' device, which automatically localises any radiation leaks in the event of an emergency, was developed after the disaster. It's in use at every Russian nuclear plant. Had these systems been in place, the world would never have heard about the Fukushima disaster."

Rafael Arutunyan, Deputy Director of the Russian Academy of Science's Institute of Safe Nuclear Power Development, agrees: "The conference will be very important for Russia to showcase its latest developments in producing safe nuclear power."

"The conference could become a turning point in the development of global nuclear power. The question will be how to develop nuclear power after the Fukushima incident," says Yukiya Amano, head of the International Atomic Energy Association (IAEA).

## Board a train to Kazan!

EVGENY TIMOSHINOV  
KOMMERSANT

It promises to be a joyride, reducing the travel time between Moscow and Kazan by one-third. You may have to, however, wait a while as Russia's first high-speed railway link is expected to be built by 2018.

The train will take 3.5 hours to reach Kazan, compared to 11.5 hours it takes now. And it's going to be easy on your wallet: the cheapest 1.5 hour flight to Kazan starts from 3,600 roubles. The fares would range from 800 roubles to 8,000 roubles, says Vladimir Yakunin, president of the Russian Railways monopoly. Kazan

and Adler (Sochi) are the two key priorities of the country's high-speed railways development programme. The 800-kilometre Moscow—Vladimir—Nizhny Novgorod—Cheboksary—Kazan high-speed train service will be Russia's first high-speed line, says Transport Minister Maxim Sokolov. The new line will be the first stage of the railway connecting Moscow and Ekaterinburg. "If we start working on it in 2013, theoretically, we would have enough time to complete it by the 2018 FIFA World Championship in Russia," he added. The new railway will require 928 billion roubles in investment, including a state grant of 650 billion roubles.

## INTERVIEW

ARKADY DVORKOVICH

## 'Privatisation on course - now the focus is on investment'

Deputy Prime Minister Dvorkovich speaks to RIBR about initiatives to spur privatisation and the need to create a business-friendly culture.

In your 2011 interview with Larry King, you said there was too much state intervention in Russia's economy, which left very little room for private business. Has the situation changed in the past two years?

It has, to a degree. We are successfully implementing the programme to have government-controlled assets privatised by 2018. We sold 7.58 percent of [Russia's retail banking giant] Sberbank for \$5.2 billion last September. This year, the process of state withdrawal from major businesses is set to continue. VTB Bank, Russian Railways, [diamond company] Alrosa and [shipping company] Sovcomflot are preparing for IPOs. No exact dates have been set, since these businesses will be sold with due regard for the market situation. In short, we view privatisation as a means toward increasing competitiveness and efficiency. Our second most important goal here is to replenish the budget: the money raised [through privatisation] will be used to finance long-term investment programmes.

The Russian government has been repeatedly stressing the need to diversify the economy. However, according to the Federal Customs Service, the share of non-primary goods in overall exports shrank by 4% last year. Why?

Although oil and natural gas historically account for a high proportion of Russia's exports, the sector is growing at a much slower pace than other sectors of the industry. We observe a rapid growth in processing; our IT sector has been growing at 15 to 20% annually over the past decade. The monetary value of our oil exports has indeed risen, but this is because the crude prices are rising. If crude is sold for \$70-\$80 a barrel, and not its current price of \$105-\$110, then, the balance would tip towards non-primary exports. But it is a good thing that the oil prices are not falling.

When will Russia be able to overcome its dependence on energy exports?

For this to happen, we must first get rid of the inefficient economic sectors and build new, efficient production facilities. This is a lengthy process, but we are trying to create an environment that would facilitate business



development and help attract investment. We offer tax rebates to individual sectors, such as IT, and to production facilities situated in special economic zones; we create the necessary infrastructure at science parks. Now, there are hundreds of start-up projects operating in this country. We have set up the Skolkovo Innovation Center, which is attracting foreign companies to our country; some of these companies have already launched operations not just in Moscow but in Novosibirsk, St. Petersburg, Rostov, Kazan and other Russian cities.

What is stopping foreigners from investing in Russia?

Investing in Russia is not always competitive when compared to investing in other countries for many reasons. The president and prime minister have instructed us to change this. Russia has to make it to the top 20 on the World Bank's 'Doing Business' ranking by 2018. We are progressing in that direction; for example, we have considerably simplified the business registration process. In just one year, Russia has risen from 120th to 112th position in the rating, and in separate aspects [of the rating], our progress has been even more impressive.

Is there something that makes up for Russia's shortcomings in the eyes of foreign companies?

## Economic Guru

Arkady Dvorkovich, 41, is an alumnus of the Faculty of Economics at Moscow State University and the Higher School of Economics. He became a close economic adviser of Dmitry Medvedev during his presidency. President Putin appointed Dvorkovich as deputy prime minister to lead the country's economy.

We have a huge market of 150 million people. This market attracts consumer goods manufacturers. Look at how automotive production is booming in Russia. Leading world car makers such as Ford, Toyota and VW began opening assembly lines here six or seven years ago; now, they are launching a second wave of localisation.

The St. Petersburg International Economic Forum will take place in June. The 2010 forum saw the signing of contracts worth \$19 billion. Do you think this year's event will beat that record?

The St. Petersburg forum is indeed one of the largest in Russia. However, it is not intended for setting a record. It is a platform for interaction that brings together the heads of Russian and international companies. This year, we will be hosting top-ranking delegations from Germany and the Netherlands.

# 12 June

## Russia Day: Moving from 'independence' to celebration of sovereignty

The story of how Russia's national day came into being, as it emerged out of the 1991 Soviet break-up, tells us much about the country today.



In August 1991, President Boris Yeltsin had to defend Russia's sovereignty against a military coup.

"I have accomplished the most important mission of my life. Russia will never return to the past. Russia will now always keep moving only forward."

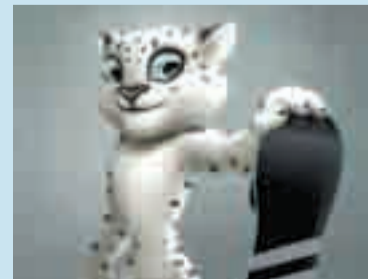
**BORIS YELTSIN**  
First President of the Russian Federation

### Stage is set for spectacular Sochi Olympics show

Preparations for the Sochi Olympics have entered the home stretch. Test competitions are almost over and the Olympic Village is set to open in another eight months. "The infrastructure for our Games is the most advanced in the world. Virtually all facilities have been designed from scratch and they are newer, more innovative, and more technological than all other such stadia or tracks," said Dmitry Chernyshenko, presi-



dent of the Sochi 2014 Organising Committee. "Russian Railways JSCo was assigned the most challenging construction project and they have done an excellent job. It is a combined road from Adler to Krasnaya Polyana, consisting only of bridges and tunnels. The railway will be commissioned in October. It will be the highest-capacity transport link, capable of carrying up to 20,000 passengers an hour." The 22nd Winter Olym-



pic Games and the 11th Winter Paralympic Games in Sochi will accommodate 5,500 Olympic athletes, 1,350 Paralympians, 25,000 volunteers, and 13,000 journalists. More than 75,000 people daily will visit the sports facilities at the Olympic Park, while the TV audience will reach around three billion.

**GLEB CHERKASOV**  
Specially for RIBR

The process by which Russia, the largest republic in the former Soviet Union, became separated from the other socialist republics was a long and drawn-out, even messy affair. But one moment stands out when Russia's modern-day sovereignty was first established – June 12, 1990 – and the process of establishing a strong, unified Russian state began. On that day, Russia's first president, Boris Yeltsin, was elected, and the same day Russia's parliament adopted a Declaration of Sovereignty. He and his team of advisors conceived it as a kind of American-style "Independence Day" – and indeed, it was a kind of crossing of the Rubicon that was to lead to the creation of modern Russia as we know it today. Now the Russian government is seeking to promote the "Russia Day" as a genuine national holiday.

#### Holiday in the making

For almost 20 years now, June 12 has been considered a holiday in Russia, but for most of that time, many Russians found it all vaguely incomprehensible. Back then, in 1990, its symbolic significance was more obvious than its content. One by one, the parliaments of

the Soviet republics had all passed declarations of sovereignty, and the Russian republic could not remain on the sidelines. The Russian parliament then called the Congress of People's Deputies and finally passed the declaration on June 12 – the same day Yeltsin was elected Russia's first president.

The choice of the election date was made for Boris Yeltsin's team, as they feared that any delay would harm their candidate's chances of securing a first-round victory, since voters would be more focused on the upcoming summer vacation season.

The authors of Russian statehood then wanted to copy the idea of the US Founding Fathers, who issued their own declaration of independence from Britain in 1776. This explains the decision to make the date of the adoption of the Declaration, with its inherent symbolism, a national holiday. Gennady Burbulis, a key adviser to Yeltsin, attached great importance to symbols: the president of the new Russia had to be elected on the same day as the Declaration of Sovereignty. That was a part of the approach: we are building a new country, a new state, and new traditions, so the date must bear an ideological hallmark.

In 1994, Yeltsin decreed that June 12 should be a national holiday – but by that time, as Russia grappled with the



aftermath of the Soviet break-up, the date was beginning to lose some of its allure.

#### Independence from whom?

The informal name of "Independence Day" also became a bit troubling for the country.

Independence of what, and independence from whom, Russians asked, as in June 1990, the collapse of the Soviet Union still seemed unthinkable. At the time, the Declaration of Sovereignty was widely seen as just a part of the political game between

Yeltsin and Mikhail Gorbachev, the president of the Soviet Union.

The collapse of the USSR – described later by Vladimir Putin as "the greatest geopolitical catastrophe of the 20th century" – was not at first seen as such by Russia's new leaders. It was then that nostalgia for the USSR began to spread throughout society.

But soon the radical democrats in Yeltsin's team began to lose their clout, and by 1994, Yeltsin's entourage needed the holiday as confirmation of their entitlement to power. Yet his government was not particularly fond of

remembering the circumstances and slogans by which that power had been attained in the early 1990s.

That is why, ever since the mid-90s, June 12 has been welcomed, but not necessarily understood by all: a kind of coffee break sandwiched between the May holidays and the summer vacations.

But as time went by, it assumed a more official and ceremonious air.

This is how the event's official website described the fifth anniversary: "And for the first time, the holiday really was worthy of such a description. The capital of Russia was adorned with banners and posters wishing everyone a 'Happy Independence Day'. Some cities held parades and concerts in honour of the occasion. And the Kremlin hosted the State Awards Ceremony."

#### Russia Day

The final break from the original concept occurred in 1998, when Yeltsin renamed the holiday "Russia Day". The Declaration of Sovereignty, the founding fathers, and the march back to the pre-Bolshevik era were all left behind. Ahead lay the default, the end of the war in Chechnya, Vladimir Putin, and the new unknown Russia.

The red, white and blue tricolour flag of the old empire was quickly accepted by the people, and became a symbol of a new democratic Russia.

**VLADIMIR PUTIN**  
President of Russia

"Democracy is the only political choice for Russia. But democracy is not fulfilling standards imposed by others. The framework of the state must not be affected...and national sovereignty and the rights and freedoms of our citizens must never be questioned."

**TAMARA MORSHCHAKOVA**  
Rtd Constitutional Court judge

"June 12 is a very important day for me because I believe this is when Russia officially recognised European values and started following the core public and legal goals – providing Russian citizens the rule of law in all its manifestations."



1. Nobel Peace Prize laureate, academician Andrei Sakharov, addressing the 1st congress of the USSR People's Deputies, 1989, called for an end to Communist rule.

2. The President of the USSR, Mikhail Gorbachev and the first President of Russia Boris Yeltsin (right) following the failed August 1991 coup.

3. A girl on a tank symbolises the fall of the Communist regime.

4. Break with the past: Destroying a monument of Felix Dzerzhinsky, founder of the Soviet secret police.

### Such a long journey: Those nation-shaping years



In the Constitution of Russia, adopted by referendum on December 12, 1993, the country is described as a federal presidential republic. The constitution provides strong powers for the president, who has broad authority to issue decrees and directives.

In May 1998 Russia made its debut as a fully-fledged G8 member at the Birmingham summit. Since the collapse of the USSR, Boris Yeltsin had tried to revive Russia's great power status. Today, Russia is a member of all nearly all important international organisations.

Vladimir Putin became acting president of Russia after Boris Yeltsin resigned in December 1999. He was elected president in March 2000 and won the polls again in 2004. Putin served as prime minister (2008–2012), and became president again in 2012.

### Young and vibrant, Ekaterinburg pitches for Expo 2020

Russia has presented Ekaterinburg's bid for the Expo 2020 at the 152nd session of the International Exhibitions Bureau in Paris. "Ekaterinburg is a young city," said Deputy Prime Minister Arkady Dvorkovich, who led the Russian delegation. "It is developing rapidly and has a high industrial, as well as research and educational, potential. We are confident that holding Expo 2020 there would help provide a new incentive to its development and that of our nation as a whole." The Russian city's competitors include Izmir (Turkey), Ayutthaya (Thailand), Dubai (UAE), and São Paulo (Brazil). Ekaterinburg is Russia's third city in terms of most socio-economic

indices, after Moscow and St Petersburg. "Ekaterinburg has successfully hosted SCO and BRIC summits, the Russia-Germany meeting, and the annual Innoprom industrial innovation exhibition attended by guests from fifty countries," says Yevgeny Kuivashev, governor of the Sverdlovsk Region whose capital is Ekaterinburg. The city will host the FIFA World Cup in 2018. The construction costs could run into dozens of billions of dollars. Prominent Russian entrepreneurs are expected to invest in Ekaterinburg's preparations for the Expo. The exhibition pavilions will be located on 182 hectares, the being reserved for hotels, offices, restaurants and stores.



## Economic resurgence: Blending growth with stability

Russia has moved beyond the Soviet collapse to script a new story of economic resurgence.

VIKTOR KUZMIN  
RIBR

Unlike in the 1990s, when the industry came to a standstill and Russia's key banks went bust, the country is now better placed to weather the global slowdown than its western neighbours. In 2009, the economy shrank by almost 8%, thus alarming many economists, who feared a repeat of the 1998 crash. But there was no gloom and doom of the 1990s, thanks to a decade of carefully storing up of reserves earned from energy exports. Russia has learned to live within its means, thus triggering a resurgence of growth. For 13 years, the government did not allow a budget deficit, and only last year, around the time of the presidential election, did federal expenditure ex-

ceed revenues by 0.1% of GDP. Russia can now justifiably boast that its public external debt is among the lowest in the world. According to Timur Nigmatullin, an expert at the analytical agency InvestCafe, as of April 1, debt stood at just \$49.8 billion — a drop in the bucket compared with a national GDP of approximately \$2 trillion. While oil and gas account for more than 50% of the budget income (based on 2012 figures), thus making public finances still sensitive to fluctuations in world commodity prices, the country has been able to save large reserves for a rainy day. These reserves cushioned the blow of the 2008-2009 crisis, despite a four-fold drop in world energy prices. The rating agencies have responded positively, and moved up Russia's



Moscow city international business center. The Russia's capital has set itself the ambitious goal of becoming one of the world's top ten financial centers.

sovereign rating to investment grade. Moody's assigned a rating of Baa1 with a stable outlook, while Fitch and S&P opted for BBB (stable). "Russia is a more profitable investment today than at some point in the rosy future when the measures adopted to improve the investment climate and economic growth will kick in," Karina Artemyeva, head of analysis at the Moscow-based National Rating Agency, told RIBR. According to the government's projection, the share of oil and gas revenues will gradually decrease to 8.5% of GDP by 2015, down from 10.5% now. Most important, three-quarters of Russians trust the country's banks with their savings. The Russian stock market is another success story. Less than 20 years since its founding, total market capitalisation stands at 20 trillion rubles (\$700 billion), or 32% of GDP. That's down on 2008, but the government aims to build this

back up to 100% of GDP by 2018. Moscow has also set itself the ambitious goal of becoming one of the world's top ten financial centers. In February, the Moscow Stock Exchange — created through the merger of the Moscow Interbank Currency Exchange and the Russian Trading System — held its own IPO, valuing the combined exchange at \$4.2 billion, comparable in value to London and Tokyo. The service sector has also burgeoned rapidly. Today, 9% of retail sales are generated by the private sector, and small business accounts for more than half of turnover, while organised retail chains now account for 22% of sales. The IT sector is surging, with Russia's IT exports expected to outstrip its arms exports by the end of the decade. The country has better broadband access than other economies within the BRICS group. In 2012, the online economy grew by 30%, with Internet-related business accounting for 4.6% of GDP.

## Creative spark: Leading a cultural renaissance



Left: Prima ballerina of the Bolshoi Theatre, Svetlana Zakharova, performing at a gala concert. Right: Wassily Kandinsky's painting 'Non-figurative composition'.



### Russian artists and innovators have put their stamp on just about every art form in the world.

DMITRY SUKHODOLSKY  
Specially for RIBR

Name an art form, and you'll find a Russian innovator, from avant-garde to psychedelic art, or Swan Lake to son et lumiere, not to mention literature, television and constructivist architecture. Contemporary art was first created not as many people might imagine, in the salons of Paris, but by Russian artist Kazimir Malevich — who in 1915 turned the art world upside down with his Black Square, which became a universal symbol for the avant-garde. Malevich's work inspired a generation: from Marcel Duchamp's Fountain in 1917, to Arnold Schoenberg's musical theory of avoiding recognisable forms, and the mysterious silence of 4'33" by composer John Cage — extending even to Dadaist Cabaret and the post-war Arte Povera. Another non-conformist Russian, Wassily Kandinsky, turned his back on a successful career as an economics

lecturer to become an outstanding abstract artist and theorist.

**Experimental architecture**  
Another Russian innovator came to prominence a few years before the 1917 Revolution, and in barely two decades created some of the world's most original architecture. Konstantin Melnikov, born to a poor family, was adopted by a rich engineer. At the age of 15, Melnikov entered Moscow's art university, and by the early 1920s became the city's best-known architect. He continued building until 1936, with every one of his experimental designs creating a stir. But at the height of his fame, Melnikov suddenly fell silent, after being proclaimed a "formalist" by Stalin's regime, a label that was akin to a professional death sentence. Until his death, Melnikov lived a secluded life in an astonishing mansion in the centre of Moscow designed in the form of two intersecting cylinders, and produced plans for architectural projects that never saw the light of day.



Acclaimed Russian film director and screenwriter Andrei Tarkovsky (1932-1986).

**Literary giants**  
Russian literature nowadays is synonymous with Leo Tolstoy's epic novels, the troubled works of Fyodor Dostoyevsky, and the popular plays of Anton Chekhov. Yet before them, it was poet Alexander Pushkin — the father of the modern Russian language — who almost single-handedly reshaped the established European genres to blend distinctively Russian features. The work of 19th century satirists Nikolai Gogol and Nikolai Leskov

opens a window into the mysterious Russian soul. Both Leskov and Gogol were masters of wordplay, producing prose that could make even Marcel Proust jealous. Although their novels are really adventurous and thrilling, they lose much of their charm in translation and in a sense, pale in comparison to the likes of Jean Cocteau or T. S. Eliot. **Stage and film**  
But while the best examples of

melodious Russian speech are lost on non-Russian speakers, you can still enjoy the country's rich musical heritage. Pyotr Tchaikovsky's ballets and operas grace the world's leading theatres from Sydney to Boston, while connoisseurs appreciate the forefather of son et lumiere (sound and light), Alexander Scriabin; while classical pianists remain in awe of Sergei Rachmaninov. Among other things, Russia takes pride in its achievements in stage productions, and in acting technique. Mikhail Chekhov, who emigrated to the US, brought the famous Stanislavsky Method to Hollywood. Meanwhile, Russia can boast of all-time great film directors such as Sergei Eisenstein and Andrei Tarkovsky. And taking a broader definition of culture, television itself was first invented in the ancient Russian town of Murom by Russian-born inventor Vladimir Zworykin. Even the psychedelic revolutions of the 1960s and 1980s could be traced to an American chemist of Russian descent, Alexander Shulgin, who is credited with the discovery of the lion's share of mind-expanding drugs.

**YEVGENY PRIMAKOV**  
Former Prime Minister  
"In Russia, the idea of public-private partnership was fully formed at the start of the 21st century. The state became established not only as a regulator of the economy alongside the market, but also as the owner of the means of production. At the same time, it was declared that state ownership would gradually be reduced through privatisation."