



ECONOMY: Russia now the world's largest consumer market; retail trade accounts for 25% GDP

NEWS IN BRIEF

Betting on WTO: Will it pay off?

As Russian businesses learn to adapt to the global marketplace, consumers hope for a fall in prices

FELIX GORYUNOV
Vedomosti

It is hard to find more solid proof of capitalism's victory in Russia than the upward trajectory of its consumer market. For Russians of an older generation, this is an eye-opening experience. "If 30 years ago, we had huge shops like this, full of merchandise from all lands and for all tastes, there would have been no need for Gorbachev's pere-stroika or for Yeltsin's follies," said Nikolai Semenov, a 75-year old former research engineer shopping at a giant Auchan supermarket on the outskirts of Moscow. "I don't know much about WTO. But if it's true that, once we are in, retail prices will start to drop I am for accession," he said. "I am sick of hearing about Russia's economic problems on TV. It's a shame they don't say that the government's primary goal must be to make our life less expensive and more comfortable."

Russia has now become Europe's largest consumer market – retail trade generates a quarter of gross domestic product. In the past 10 years, personal consumption has been stubbornly overtaking production, and the gap between domestic supply and demand is increasingly being filled by imports. By all estimates, whether or not Russia joins the World Trade Organisation, this gap will remain; the question, however is how the WTO will affect its size.

A close look at retail hypermarkets – one of the best consumer market mirrors – reveals some home truths and shows the wonders market forces can do when they are not overregulated by red tape. The hike in personal incomes beginning in the late 1990s, combined with a growth in domestic fixed capital outlays, led to an explosion of organised retail trade, starting in Moscow and St. Petersburg and then extending to the rest of the country. In the last 10 years, retail trade in Russia has attracted over \$20 billion of direct foreign investment.

Today, Russian retail firms control over



WTO accession will improve price and availability of imported goods.

half the urban market in groceries, fresh produce, clothes, footwear, home appliances, cosmetics, pharmaceuticals; Russian firms have about 80 percent of the trade in electronics, including TV, computer hardware and software and mobile phones. The largest retail network in terms of sales volumes is the X5 Retail Group. It was formed in 2006 by a merger of the popular retail chains "Pyaterochka" and "Perekrestok" and now manages 3,140 supermarkets, discounters and franchise retail outlets as well as traditional retail shops in western Russia and

Ukraine. Auchan Russia, a subsidiary of the French grocery giant Auchan, is the country's second-largest retailer: it already boasts 45 hypermarkets across the country and plans to triple its network by 2015.

Most Russian retail chains have been copying the business model that has proved successful in the West: expanding a network of stores, increasing sales and reducing costs through economies of scale and a reliance on large suppliers. This model also builds customer loyalty by ensuring that shoppers can always find a variety of

quality and affordable products. It's likely that with Russia's accession to the WTO, the price and availability of imported goods will improve.

As Russian businesses learn to adapt to the global marketplace, the expansion of organised retail inspires hopes that some consumer industries can benefit from the changes, and the Russian political elite will focus more on what it can do to make people's lives better – such as making it easier for foreign firms to access local markets and partner with Russian companies.

Kudankulam plant likely to be onstream (Aug 25)

The nuclear power project at Kudankulam in Tamil Nadu is likely to be commissioned on August 25 if the Atomic Energy Regulatory Board (AERB) gives its nod for a trial-run by this month-end. Minister of State in the Prime Minister's Office V. Narayanasamy told that August 25 was fixed tentatively for commissioning the 1,000-MW first unit, as the AERB's clearance for a trial-run was in the final stages. He indicated there could be a formal inaugural function for dedication of the plant, built with Russian help, to the nation. Unit-I was expected to start in December 2011, but had to be delayed due to protests owing to safety concerns raised by protesters. **RIBR**

India asked to help in upgrading GLONASS

Russia has offered India participation in upgrading the GLONASS satellite navigation system, said Russian Deputy Prime Minister Dmitry Rogozin during his visit to New Delhi on July 17. Russia is also planning to cooperate with India in the aviation and space industries. Joint work in these areas between the two countries, the development of new weapons and their sale, has a long history, Rogozin said. "We must promote contacts between people and establish a system to exchange technology and experience. India's involvement in upgrading the GLONASS system would be the first point in implementing the plan, NIS-GLONASS general director Alexander Gurko said. "IT and software are highly developed areas in India," he said. **RIBR**

Indian consortium eyes 15% stake in Yamal LNG

An Indian consortium consisting of ONGC, Indian Oil Corp and Petronet LNG are looking at buying a 15% stake in Russia's Yamal LNG project, Petronet LNG Chief Executive A.K. Balyan was cited as telling reporters by The Economic Times. Balyan said he hoped a final decision would be taken in the next two months, according to the paper. The Yamal LNG total project cost is estimated to be around \$23-24 billion, the paper cited Balyan as saying. Russia's Novatek and France's Total are partners in the Yamal LNG project, which should start producing 5 million tonnes of Liquefied Natural Gas (LNG) a year in 2016, the paper said. **RIBR**

Russia, India begin INDRA military drills

Russia and India started Sunday joint INDRA-2012 anti-terrorism military exercises in the Siberian republic of Buryatia, a spokesman for Russia's Eastern Military District said. The drills will be held until August 16. An active phase of the exercises will begin on August 13. Some 500 servicemen – 250 on each side – will take part in the drills conducted using Russian-made combat vehicles. Since 2003, India and Russia have conducted five INDRA-series joint ground and naval exercises. The last such exercise was held in India in October 2010. Russia cancelled INDRA-series exercises in 2011. **RIA Novosti**

Vikramaditya took part in Russian Navy Day Parade



The Indian Navy's Vikramaditya aircraft carrier participated in the Russian Navy Day parade on July 29 in Severomorsk, the main base of Russia's Northern Fleet, according to the press service of the Russian Western Military Region. On Navy Day, the Vikramaditya was in the front line with the ships and submarines of the Northern Fleet. About 12 ships and over 3,000 naval personnel took part in the Severomorsk Naval Parade. The main events were held at Primorskaya Square and in Severomorsk harbour, where military theatrical and sports performances took place. The celebration was culminated with an artillery salute. After the tests are completed, a Northern Fleet crew will transfer the ship to a crew of the Indian Navy. **Regnum**

DIPLOMACY: Agrees to resolve Sistema row, set \$20bn trade target by 2015

Mapping an ambitious agenda for Putin visit

India, Russia need to resolve the Sistema telecom issue to realise full potential of economic and defence ties.

SHWETA CHAND
RIBR

Ahead of Vladimir Putin's first visit to India in his third presidential tenure, India hosted Russia's Deputy Prime Minister Dmitry Rogozin in New Delhi on July 16-17 to map out the course of the "special and privileged partnership" the two countries have consolidated over the years. India's External Affairs Minister S.M. Krishna and Rogozin co-chaired the annual meeting of the Inter-Governmental Commission that focused on revitalizing the economic relationship that has remained much below the potential. The meeting reflected a growing realisation by both sides that while defence and strategic cooperation have grown, bilateral trade at less than \$10 billion is hardly worthy of the two time-tested partners. Issues like streamlining of procedures and easing of the visa regime for businessmen figured prominently in the discussions. The meeting, however, ended on a positive note with both sides renewing their pledge to "redouble efforts" to achieve the \$20 billion trade target by 2015. "The figures for the first quarter of this calendar year are encouraging, but clearly more needs to be done," said Krishna. A key highlight of the meeting was the discussions between the two sides on fast-tracking their "joint drive to harness the benefits of modernisation and industrial cooperation by pooling in the vast human and scientific resources of the two countries."

Looking beyond the bilateral compass, India agreed to jointly study a Comprehensive Economic Cooperation Agreement (CECA) with the Belarus-Kazakhstan-Russia Customs Union, a pact that has enormous potential for the Eurasian economic space. The wide-ranging discussions have set the stage for the visit of Putin to India for the 13th India-Russia annual summit later this year.

Rogozin's visit was by and large successful, but Russian telecom giant Sistema's endangered investments in India threaten to cast a long shadow over bilateral ties unless this knotty issue is resolved urgently. In his meeting with Prime Minister Manmohan Singh, Rogozin conveyed Russia's anxiety over the Sistema stalemate. Manmohan Singh is understood to have assured that although the matter was sub judice, New Delhi would do all it can to not let this matter cloud the larger relationship. Russian tycoon Vladimir Yevtushenkov has invested \$3.1 billion in a joint venture with Shyam Telecom. The Sistema, however, got a shock when India's Supreme Court in February ordered that all 122 licences (including that of Sistema Shyam Teleservices) be cancelled on allegations of bribery and corruption in the allocation of 2G spectrum.

Russia is hoping that the issue is amicably resolved amid speculation that the Indian government has created a special group to look into the Russian case. Clearly, there is a lot at stake in the resolution of this issue. "The future of our investment cooperation depends on this. If it is not successfully re-

Deputy PM Rogozin met Indian PM and urged him to resolve Sistema's investment issues.

solved, then we shall have second thoughts whether it is worthwhile to cooperate," cautioned Russian ambassador Alexander Kadakin in an interview. "We will not allow Russian money to perish," he declared.

But the Sistema hitch apart, there is a lot happening that should brighten the horizons of the India-Russia partnership. Even as Rogozin and Krishna were holding talks



Russian Deputy PM Dmitry Rogozin meets India's External Affairs Minister S.M. Krishna.

in New Delhi, nuclear officials of India and Russia in Moscow signed a protocol for Russian funding for units III and IV at the Kudankulam Nuclear Power Project in Tamil Nadu. Under the protocol, Russia will extend export credit amounting to \$3.4 billion,

Russia agrees to provide \$3.4bn loan for Kudankulam Nuclear Power Plant's units III, IV

underlining its enduring commitment to implementing the ambitious road map for expanding civil nuclear cooperation. The pact effectively meant that 85% funding of the nuclear projects' works, supplies and services will be provided by Russian companies for Kudankulam III and IV. The estimated cost of units III and IV is \$6.4 billion, of which \$3.4 billion will be taken care of by Russian

state credits. However, the final agreement is still under discussion. It's important to stress that Russia's nuclear cooperation with India is going apace even as the India-US nuclear deal continues to be bogged down in complications.

There is some more good news on the way. Russia is determined to fulfill its promise of handing over the refurbished aircraft carrier, the Admiral Gorshkov, now renamed INS Vikramaditya, to India by December. In his talks with Rogozin, Indian Defence Minister A.K. Antony also pressed him for the induction of BrahMos supersonic missiles in the Russian Naval fleet. If these trends are anything to go by, Putin is headed for a substantive and productive visit when he comes for the annual summit to New Delhi towards year-end. If the Sistema issue is resolved in the coming months, it will galvanise both sides to scale up their economic ties in tune with their sturdy defence and strategic relations.

AGRICULTURE: Once a wheat importer, Russia turned into the world's second biggest exporter of grain

Reaping the rich harvest

Farmers in the Krasnodar Territory are on a roll. As Russia turns grain exporter, the new game is playing poker with wheat price

ALEXEI BOYARSKY
Kommersant-Dengi

In the Krasnodar Territory, the harvesting campaign leads the evening newscasts. But the footage of combine harvesters pouring grain into trucks and the director of a local farm reporting to a local official about a hugely successful harvest cannot keep up with the times.

The tide has turned. The Soviet Union used to import wheat, but during the 2011-2012 season, Russia exported 21 million metric tonnes of the grain, making it the world's second-biggest grain exporter, second only to the US, which exported 28.7 MT. During the Soviet era and even today, the Krasnodar Territory leads the country in terms of yield and harvest volume. In 2011, the region thrashed more than 7 million tonnes of wheat.

Bigger is better

There is a warning by Peter the Great in Kuban AgroHolding's office that reads: "If, from now on, anyone harms agriculture, he must be hanged without any scruples!" The company's majority shareholder is billionaire Oleg Deripaska, but this is of no importance to one of the company's harvester operators. "Deripaska or not, what really matters is the wages they pay," said the operator, who preferred to remain anonymous. Kuban AgroHolding is a giant, with 84,000 hectares of plowland. It is showpiece agribusiness – among other things, it boasts a grain elevator the size of a 12-storey building and a new seed center.

Smaller farms account for almost one million hectares of plowland in the region, out of 3.75 million hectares. When state farms were parceled out, all the workers received a land share ranging in size from four hectares to 20 hectares. Now, 40 percent of local plowland is leased by Kuban.

In front of the Zarechye company headquarters, there are five flags fluttering on five flagpoles. They represent Russia, the Krasnodar Territory, the Krasnye district, the company and Bayer, its chemicals supplier. Beneath the poles lies a marble platform with the motto "Working for the Good of Russia" embossed in both Russian and English. The farm machinery



Giant harvesters at work in wheat fields of Krasnodar.

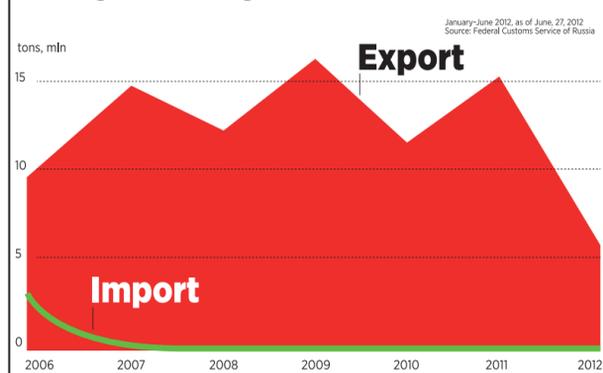
yard features new models of the best brands. "Wheat is traded at \$270 on the exchanges now," said Valery Kiyashchenko, a rich farmer. "With the dollar currently trading at 33 rubles, we get almost 9,000 rubles per MT, nine rubles per kilo, minus the 2-ruble markup for the traders – and you have the current 7-ruble price. There is no point in selling now – if the dollar appreciates, then wheat prices will automatically go up." A harvester operator earns around \$1,085-\$1,240 a month during the nine-month season, although harvester operators at Kuban AgroHolding reported wages of up to \$2,480 a month during the harvesting season, and a monthly average of about \$1,550.

What's it worth?

The Kuban AgroHolding sells 60 percent of its wheat harvest abroad; however, even such a giant company does not work with foreign buyers directly, but via export dealers. The traders work hard to earn their 2 rubles per kilo. – exporting wheat involves big problems with access to ports and availability of transport.

This leaves room for playing with prices. Foreigners assess wheat by protein content, whereas Russia assigns

Going with the grain



wheat grades based on gluten content. The higher the grade, the more gluten the wheat contains, and the better the bread it makes. Farmers can sell the entire wheat harvest at current prices, or they can opt to sell it without harvesting, at 4-5 rubles a kilo, and buyers will come and harvest it themselves, but most farmers prefer playing the

year-round wheat price poker. The harvesting campaign is on. In spring, nothing will be left of the harvest, and prices will soar as it is costly for farmers who do not have storage facilities. There is always the risk the grain could go bad or be eaten by mice. The farmer can only decide whether to sell the grain, or wait a bit.

Mall mantra: No crisis, shop and be happy!

Despite the global slowdown, Russians feel no need to save for a rainy day. Instead, they spend their way to happiness.

NADEZHDA PETROVA,
Kommersant-Dengi

The global slowdown has not slowed down one thing: Russians' unquenchable appetite for shopping. They seem to be happiest in malls.

A recent survey showed that 42% of Russians echoed the mantra: "The more I buy, the happier I feel." Russians are almost unique in this respect; only Brazilians show a similar level of shopaholism.

According to Nielsen, only a third of the Russian population actively saves, compared to the global average of 50%. The Russian economic ministry recently said that in the first quarter of 2012, the propensity to save hit a three-year low.

The news cheered analysts tracking consumer behavior. "Russian consumers have consistently ignored pessimistic expectations. This kind of behavior encourages economic growth in the future," says Renaissance Capital. It is, however, fairly irresponsible on the part of consumers.

"With nothing put aside for a rainy day, the standard of living will take a dramatic fall in the event of a negative economic shock and it is hard to predict what it would lead to in country-wide terms, said Alexei Belyanin, the head of the Laboratory for Experimental and Behavioral

Economics at the Higher School of Economics.

"In a market economy, people have to be responsible for their own actions." Yet many Russian consumers do not want the responsibility; they just want to be happy.

Over the past two years, there has been increased demand towards the medium and medium-plus price segments, a change from before the financial crisis, when demand was high for luxury items. "The trend is obvious in digital products like TV sets, mobile phones, computers and cameras," said a source in the electronics retail chain M.Video.

According to food giant X5 Retail Group, the medium price segment is gradually shrinking and the demand is gravitating towards economy class products. The demand for luxury goods is, however, slightly expanding. Boston Consulting Group data shows that the share of consumers intent on buying more expensive goods and services has shrunk to 18%. Furthermore, 43% of respondents confirmed that the crisis had caused them to put off expensive purchases, look for the best prices and never miss a chance to buy cheaper items. In terms of luxury consumers, Russia is far ahead of other countries, again with the exception of Brazil. India, which, incidentally, ranks third, has 14%.

O Lada! An affair with Soviet cars

The West's romance with Soviet cars makes a thrilling story as Lada makers hope to cash in on a shortage of budget cars in the UK.

ALEXANDER PETROV
Avtopilot magazine

An Englishman Stephen Floyd wrote on his website, which is dedicated to the iconic Soviet car Lada: "When in 1984 I got my driver's licence, I had only about \$150 in my wallet to buy my first car. It was not such a big sum, and I did not have such a great choice. Then I looked at column ads in the Bristol Evening Post and saw a 1973 Lada 1200 for the same amount that I had in my pocket." Even then, the purchase of such a car was somewhat unusual.

The car known abroad as Lada is known in Russia as 'Zhiguli'. The Togliatti car plant had to change the name of the brand for export due to a discordant similarity with the word "gigolo" whose meaning few in the Soviet Union knew.

And Lada was not Floyd's only car made in Togliatti. He later owned a 1979 Lada 1600ES, known in Russia as the VAZ-2106. He bought it for almost \$310 from a man in Coventry. And then he started to restore the car. He completely disassembled it "down to the last bolt" in about the same fashion that car restoration specialists approach any classic car.

In the end, Lada turned out to be more beautiful, and it began to take part in Lada Owners Club of Great Britain events. Outside the club's boundaries, Ladas are often greeted by a sarcastic smile, so it should come as no surprise that the recent news that AvtoVAZ intends to return to the British market received a similar reception. Jokes aside, marketing experts assert that the UK car market is experiencing a shortage of budget models.

The UK was not the only Western country to have Soviet cars on its roads. In 1952, the American magazine Motor Trend published an article about how a certain Stanley F. Slotkin brought a Soviet Pobeda car from Finland to the US. The story went that while Slotkin was in Helsinki on business, he was running late and hailed a cab; he mechanically plopped



One can still come across Lada car made in the USSR in different parts of the world.

down in the back seat, and only then did he examine the interior of the cabin, which seemed unusual to him.

Learning from the taxi driver that it was a Russian Pobeda, Slotkin immediately wanted to buy one. The article vividly describes the long search for the car, the illegal purchase of a stolen Pobeda from somewhere, its disassembly into pieces, their packaging into a container, and Slotkin's thumping heart and parched throat at the customs inspection station.

Why did he need to do all this? Solely for self-promotion and to raise the price of the car, which in 1952 was possibly the only example of a GAZ-M20 in the US – it is easy to read these ideas between the lines. The article reads: "Slotkin does not plan to drive his new Pobeda; he has other cars that he likes more. Instead, he's going to give it to charitable organizations for demonstration purposes." Even if he did decide to drive it, it would have been very difficult for him to picture himself going to Gorky for spare parts. "This is the only car for which I feel no desire to enjoy the benefits of a six-month warranty. After the adventures that I went through getting it out of Russia, I have no desire to send it back to them," Slotkin said.

INTERVIEW

CHERIAN EAPEN

'There is plenty of scope for innovative IT'

Connection, credibility and proficiency in language are key factors for success in Russia

ELENA KROWIDI
RIBR

According to Dr Cherian Eapen, founder-president of ROY International Consultancy, Inc., Russia is becoming increasingly competitive in what is seen as a traditional Indian stronghold – outsourcing in the IT sphere.

ROY International Consultancy, Inc. is the company specializing in systems integration, design, implementation and support of complex hardware and software solutions.

Dr Cherian Eapen says it's not an easy deal to win over the Russian IT market. According to Dr Cherian, the key factors in the Russian IT business are connection, credibility, risky investments and taking into account the language. However, in Russia there are opportunities to try innovative solutions and implement advanced IT systems, in particular, in the oil and gas, metallurgy, pharma business – the three pillars of industry where Indians working in Russia achieve most success. "With the versions of software going up every year in the world, their current high level of development makes it impossible to just

sell in Russia everything like 1990s. At that time, a modern basic computer had more power than the Russian fatherhood computers, with 400 sq. meter cooling systems, etc., which was used for the launching of the Sputniks, even with the first cosmonaut, Yuri Gagarin". And besides, the present situation is aggravated by the recession, with the entrepreneurs as well as shareholders of organizations getting less interested in investment than they used to be in the more prosperous IT period 1990/2000s.

ROY International Consultancy was founded in 1988 and was the first to import the New Technology computers based on Intel processors. Then it became the first partner of UNIX based SUN Microsystems (now ORACLE Hardware) in Russia. Dr Cherian recalls his cooperation with many world leading computer companies, particularly, SUN Microsystems in the 1990s. The first steps in their partnership were not easy. With the COCOM permission, ROY imported to Russia, the innovative technologies from the USA, starting from 3 Motorola chip based computers, from WIPRO/SUN India. "I went to the



US and talked to SUN representatives for high end machines. They were not at all receptive. But, they sent me to their Singapore office. In turn, they sent me to Hong-kong, then to Germany and finally to England. Again in California, the meeting with Vice-Presidents of the SUN Corp., and SUN's Country Manager of Great Britain and Europe made the historical decision to export SUN systems directly to Russia." Then his innumerable, long voyages between Moscow and Menlo Park, San Francisco, made the cooperation with the SUN Microsystems with Russia.

SUN Soft started their s/w development activities in Moscow and St. Petersburg, creating a lot of jobs. Teaching the UNIX operating system to Russians were one of the most credible work that ROY had undertaken. It enabled the Russians to use all computers, with UNIX OS. This enabled and qualified ROY to bring the first Super Computer from USA, to the former Soviet Union Geography, clearing all legal formalities and Cocom embargo. The first super computer was commissioned, at Tat-Neft-Geophysica, on January, 1, 2000.

Currently, in Russia the seismologi-

BIO

STATE OF ORIGIN: Kerala
SPECIALISATION: IT

STUDIES: Dr Cherian Eapen is PhD in Engineering, the Moscow Institute of Power Energy.

ACHIEVEMENTS: The company Dr Cherian founded Roy International, Inc. has been in the Russian market for almost 25 years. Dr. Cherian distributes most of the profit of his company for charity purposes in India, Russia and in the USA.

cal modeling, consulting on the optimization of the field works' process, improving the quality of processing and interpretation of the data are especially required, and this is where IT sector plays an increasingly important role. Dr Cherian believes in diversification of activities and development of high technologies in a variety of fields allowing to flourish, even in the times of economic slowdown.

POLICY: Russia is going to demonstrate its potential to its Asian partners

APEC to showcase Far East

A newly-created ministry is intended to lift the Far East and Siberia out of stagnation and depopulation.

SERGEI LUZIANIN
Voice of Russia

The upcoming APEC summit in Vladivostok and the creation of the Federal Ministry for the Development of the Far East of the Russian Federation underlines the willingness of the Russian society and business elites to take a new look at Siberia and the Far East. Rather than being considered simply a distant outpost on the periphery, these developments indicate that these regions should now be viewed as a potential nucleus of economic development.

Usually, the economies of Siberia and the Far East are conjured up only in negative terms. Experts writing on the subject use terms like stagnation, conservation, deindustrialisation and depopulation. Despite the titanic efforts of the federal government in recent years – including the preparations for the APEC forum – the problems in the region remain unresolved, and some of them have even exacerbated. For example, the share of the Siberian and the Far Eastern Federal Districts in Russia's Gross Regional Product (GRP) decreased from 16.4% in 2001 to 16% in 2011. The region's population continues to decline, and according to data from Russian Public Opinion Research Center (VTsIOM), up to 40% of the region's inhabitants say they are ready to move immediately.

Some experts think the region's salvation lies in energy resources, but facts indicate the opposite. In 2008, when the Irkutsk Region first became an oil-producing area, the real income of the region's inhabitants dipped significantly, and it is not the only example in Siberia.

It turns out that so far the hydrocarbon development of Siberia has not resulted in an increase in the standard of living for local residents. Unlike in the Persian Gulf monarchies, where citizens benefit from oil wealth, the benefits the region has reaped from energy resources have not trickled down.

Some Russian businessmen have made grand-sounding statements about the huge potential of Siberia. For example, billionaire tycoon Oleg Deripaska said at the St. Petersburg International Economic Forum that the gross regional product of Siberia and the Far East can be doubled by cooperating with Russia's Asian neighbours in developing energy resources and infrastructure.

At the beginning of 2012, Sergei Shoigu, who was then Minister of Emergency Situations, came up with



The Russian city of Vladivostok all set for hosting the APEC summit in September 2012.

the idea of establishing a state corporation for the development of Siberia and the Far East. On April 29, Deputy Prime Minister Igor Shuvalov confirmed the Russian government's support for this

The gross regional product of Siberia and Far East can be doubled by cooperating with Russia's Asian neighbours in developing energy resources

idea. "We are planning to establish a state corporation that will invest in the Eastern Siberia and the Far East," he announced. This new corporate would effectively be a kind of state-within-a-state that could encompass up to 60% of Russia's territory. This corporation could control the rights to developing and licensing hydrocarbons or set the conditions for foreign investment from its proposed headquarters in Vladivostok. Critics have called it anything from an enclave to a black offshore zone for the benefit of a small group of elites. This project has yet to be realised, which is probably good. Russia's experience with state mega-corporations

has not been exactly encouraging. The creation of a new federal ministry for the development of the Far East is much more promising. The federal ministry will cover the territory of the Far Eastern

The country has injected an estimated 679 billion rubles (\$21 billion) to prepare the city of Vladivostok for the APEC summit in September

Federal District; its main headquarters will be located in Khabarovsk. Its leader will be Viktor Ishaev, an academic and former governor, who many believe has the requisite credentials and ability to pull the region out of the abyss. This project is a real alternative to the establishment of a state corporation, and the scope of the minister's powers will be leveraged only for the benefit of the region, especially regarding the regulation of foreign investments in the local economy. Big Chinese companies have already indicated that they are ready to cooperate with the new ministry directly, and some of them have talked about investing dozens of billions dollars in

the infrastructure and energy facilities of the Far East.

It is quite possible that, thanks to this new ministry, the development of the Far East and Siberia will finally begin and the catastrophic out-migration of the population will be suspended. One idea to consider would be the payment of bonuses to those willing to live and work in the region. This practice was accepted during the Soviet era, and it is no secret that a majority of those who moved east made the decision for monetary reasons, not the charm of the Taiga.

The APEC summit may become a very suitable occasion to showcase this new ministry to the world. Russia has spent almost five times the original budget to prepare the city of Vladivostok for the APEC summit to be held in September. The country has injected an estimated 679 billion rubles (\$21 billion) into Vladivostok; partially to increase the number of facilities that will be left in the city after the summit.

The new Eastern policy of Vladimir Putin, it appears, is set to shine in Khabarovsk and Vladivostok, on the Amur banks and the Pacific Ocean shores.

THE BIG PICTURE

India, Russia and the Syrian crisis



M.K. BHADRAKUMAR
FOREIGN POLICY ANALYST

If the Russian vote against the resolution passed by the United Nations General Assembly over Syria was predictable, India's abstention was fortuitous. This Russian-Indian 'divergence' arose because the two countries so far pursued specific interests. For Russia, Syria has been a strategic ally, whereas India took a pragmatic stance imbued with the alchemy of its equations vis-à-vis the protagonists spearheading 'regime change' in Syria – the United States, Saudi Arabia and Qatar.

However, that has become a priori history. The die has been cast and it emerges that Russia and India have a strong commonality of interests. That is how the voting pattern at the UN last Thursday needs to be interpreted. The heart of the matter is that certain bigger issues of immense consequence to the international system and the regional and global politics have surged to the centre-stage and India and Russia have shared concerns over their interplay. Principally, there are five key issues involved here. One, the concerted external intervention to force 'regime change' in Syria drives a dagger into the heart of the Westphalian system that historically put primacy on the sovereign nation-state, big or small, as the basic unit of international order. The violation of the established order runs contrary to international law and negates the very idea of a democratic world order.

Second, where do we draw the line, assuming the Arab Spring is about the advent of democracy, reform and change in countries with authoritarian rule? More pertinently, who draws the line? The two die-hard proponents of democracy and reform in Syria happen to be the regimes in Saudi Arabia and Qatar, which are archaic oligarchies themselves. In sum, what is happening over the Syrian situation is selective intervention for geopolitical reasons, which is camouflaged as 'humanitarian intervention'.

Third, neither the interventionists nor the Syrian 'rebels' whom they armed and let loose have told us how they propose to tackle what follows in the downstream of 'regime change' in Syria. Instead, what

comes to mind is the catastrophic current history of Iraq following the much-trumpeted US intervention for 'regime change' in that country in 2003 – an epochal tragedy of death and devastation that burdens generations of Iraqis.

Four, any anarchy in Syria is bound to spill over. The Persian Gulf region (where over 6 million Indians live and work) won't remain unaffected. The interventionist powers have let it be known that their next target is Iran. The flame is stealthily advancing right up to India's immediate neighbourhood.

Indeed, both Russia and India become vulnerable in the process. The spectre that is haunting the two countries is the ascendancy of political Islam and the threat it poses to regional security and stability. Afghanistan is the disastrous outcome of the West's attempt to harness the forces of religious extremism as instruments of policy against the former Soviet Union. The West is once again conniving with Islamist extremist fighters in Syria.

There are grave security implications for both Russia and India. What happens in Syria holds the potential to impact a wide swathe of the so-called Greater Middle East, stretching from the Levant to the Central Asian steppes.

Finally, there is an existential issue that no one wants to talk about because of its extreme sensitivity – viz., the fragmentation of plural societies. The US pursued a deliberate policy to create the political entity of Kurdistan in northern Iraq, which is today admirably serving its interests as a cockpit to strategize the regime change in Syria. We sense an impending fragmentation of Syria into an Alawite state and Sunni state and, possibly, yet another Kurdish enclave.

The point is, the territorial boundaries of countries that are of pivotal interest to Western regional strategies are unraveling due to external 'humanitarian intervention'. This smacks of colonial strategy. The process began in the 1990s with the former Yugoslavia. Iraq's fragmentation is today far advanced. Afghanistan hangs by a thread. As plural societies, Russia and India cannot but be concerned.

TREND: Industry fears tougher competition, anti-dumping probes and reduced exports

Now, Russian steel producers get WTO blues

The WTO accession, once seen as a Holy Grail, has now made Russian steel producers, reeling under dipping profits.

ANASTASIA MISHANINA
RBC Daily

Russian steel producers, who were always projected to be among the chief beneficiaries of Russia's accession to the WTO, have found serious flaws in the new rules of trade. They are complaining that rising utilities rates and raw materials prices have eroded their competitive advantages in recent years, and fear that imports will now dominate. They also expect to be the target of a growing number of anti-dumping investigations. Against this backdrop, they plan to hold talks with the US and the European Union on measures to avert trade disputes.

Vladimir Lisin, president of Russian Steel, an industry body which brings together Russia's largest producers, indicated in his report to a recent conference in Magnitogorsk that the steelmakers anticipate tough competition, anti-dumping investigations, reduced steel exports and raw materials consumption.

For a long time, accession to the WTO was seen as a Holy Grail for the Russian metals industry, which would enable it to improve its position in the international market. But as it turns out, Russian steelmakers, who earlier could boast of the highest profit rates in the world, are far from unassailable today. Lisin's presentation noted that the average profit rate in the industry has dropped from 29% to 12% since 2007. The cost of production has increased by a factor of 5.6 since 2001, while steel prices climbed by a factor of only 3.9. "In the coming years, the profitability of Russian metal production will be on a par with or worse than that of its competitors," he said.

The falling rate of profit is primarily connected with spiraling costs of natural gas, electric power, and rail transport. Latest data show that Russian gas and electricity prices have caught up, and in some cases even surpassed, those of their competitors. For exam-



An inside view of a steel factory in Russia.

ple, in the US 1 kWh costs 5.4 cents, as against 6.6 cents in Russia (looking only at the Urals Federal District). In the Central Federal District, 1 kWh of electricity costs Russian companies 8 cents, which is only 7/10 of a cent cheaper than in Belgium. Russian gas prices have also caught up with the US: the cost per tonne is \$119.00 in both countries. The metals producers are complaining about rising rail shipping rates, which have climbed 78% since 2007. Gas prices have been dipping in the US and Europe, while prices in Russia continue to rise.

The steelmakers, however, feel that the new trade rules after the WTO accession may further dent the declining profits. Repeal of the existing agreement with the EU represents a threat to 2.5 million tonnes of Russian exports, while another 300,000 tonnes may be affected by a revision of the agreement

limiting deliveries of hot-rolled steel from the US, explains Russian Steel. The steelmakers are also troubled by a possible drop in Russian domestic steel consumption due to increased competition from imports.

To protect themselves from possible anti-dumping measures from steel-importing companies, the steelmakers propose to replace the Russia-EU pacts on steel with a bilateral early-warning system for trade disputes. They also want negotiations with the US to prevent a deterioration of the terms of export. At the same time, they want to defend the Russian market against imports at dumping prices by using some protectionist measures. However, Russian steel companies are among those least impacted by the changes which the WTO accession will bring, because they already have a long-standing presence abroad.

REALPOLITIK

Putin's new foreign policy



VLADIMIR FROLOV
POLITICAL SCIENTIST

Vladimir Putin's return to the presidency was expected to bring more brains and dexterity to the country's foreign policy. Where President Dmitry Medvedev had been lofty and idealistic, it was argued, Putin would be purposeful and pragmatic.

It's turned out a bit differently. While some of Medvedev's initiatives were ambitiously naive – the European security treaty or the joint missile defense project with NATO – his foreign policy had a clear strategic purpose. He wanted to carry out a technological and social upgrade through "modernisation alliances" with the West. This strategic purpose overrode other less important foreign policy considerations. He viewed Russia as a regional, not global, power.

Medvedev began closing the values gap between Russia and the Western world in responding to international challenges.

Putin quickly dispensed with Medvedev's strategic purpose and

modernisation alliances. His foreign policy so far has been surprisingly tactical, heavily tailored for domestic PR and tinged with his personal attitudes.

Putin has staked out a global role for Russia as defender of absolute sovereignty. His policy is tailored to look tough to the people at home and to the apprehensive autocracies in the former Soviet space. Russia's intransigence on Syria may have won it the central role in the UN debate, but it has undermined the UN's effectiveness as a tool for Russian influence. It has also enhanced Russia's isolation on the global arena.

Putin has allowed his personal sensibilities to drive policy at the expense of strategy. His dissenting of US President Barack Obama and public humiliation of Ukrainian President Viktor Yanukovich satisfied his personal dislike for those leaders, but they hurt Russia's broader interests.

Medvedev's foreign policy was visionary but unpopular. Putin's is situational and impulsive but broadly supported. Go figure.

OLYMPICS: Indians also recall Moscow's stunning makeover, Mishka the good bear

Nostalgia: Rewind to India's hockey glory in Moscow

Thirty-two years later, the Indian hockey team's gold at Moscow Olympics in 1980 continues to evoke national pride and nostalgia in India.



AJAY KAMALAKARAN
ELENA KROVVIDI
RIBR

A field hockey game during the 1980 Moscow Olympics.

It was a high moment for Indian hockey – the last great triumph for a nation with a winning tradition in the sport that spanned decades. The gold medal glory at the Moscow Olympics in 1980 still evokes vivid nostalgia in Mumbai. There was a grand celebration on July 29, 1980 at Melroy D'Souza's bungalow in the then-quiet Mumbai suburb of Bandra. "We waited 16 long years to win that gold medal," says D'Souza, now 83. The octogenarian had seen Indian hockey at its best, the "golden years" as he calls, the period between 1928 and 1960 when India won the field hockey gold six times in a row. India reclaimed the gold medal it lost to Pakistan in 1960 by winning in Tokyo in 1964, but the team wouldn't reach another Olympic final in the next three editions. "People love to discredit our 1980 team and talk about the boycott," says D'Souza, while referring to the US-led boycott of the games in Moscow over the USSR's intervention in Afghanistan. "The competition was still strong with Poland, Spain and a strong Soviet team." D'Souza, who followed the

MELORY D'SOUZA
A Mumbai hockey fan

"The celebrations were much more intense than when India won the cricket World Cup in 1983. When India took a 3-0 lead, we started celebrating with rum and Campa Cola. Mohammed Shaheed scored the 4th goal and then we knew it was over."

match on All India Radio, says he remembers the rainy monsoon evening in Bombay (as the city was then called) like it was yesterday. "There were 20 of us listening together and when India took a 3-0 lead, we started celebrating with rum and Campa Cola." There were hordes of fans that trooped to the Gateway of India to celebrate. "It was like New Year and the celebrations were much more intense than when India won the cricket World Cup in 1983," says the hockey fan.

Hari Menon, a bank executive in Mumbai, lived in Madhya Pradesh at that time. "People say the gold was tainted because Holland, West Germany, Pakistan and Australia didn't play, but India did not thrash the stronger sides," says Menon. "We were lucky to draw with Poland and that helped us stay in contention for the gold." Menon recalls how his neighbours started distributing sweets and bursting firecrackers after the victory. "Hockey was the Sport then and I remember reading how thousands of people were waiting outside for the team when they came back from Moscow."

Gagandeep Shekhon was one of the lucky Bombayites to be in Moscow to watch the Olympics. Shekhon, who was an official with a sports federation, loved what he saw of the Soviet capital. "It cost just 5 kopecks to take the metro and everything was so cheap," he says. He remembers the outpouring of friendship in the streets during the games. "A Sikh in Moscow in 1980 was a novelty," he says with a smile. Yogender Nagpal, a philology stu-

80

nations took part in the 1980 Olympics, with 65 countries abstaining, most boycotted the Games because of the Soviet invasion of Afghanistan.

195

was the total count of medals the Soviet Union got at the 1980 Olympic Games in Moscow.

5 mn

spectators were attracted by the Games, a 1.5 mn increase since the Montreal Olympics in 1976.

dent in 1980, was more in awe of the makeover that the Soviet capital got as the host of the games. "The city was very beautiful and very tidy. Olympic melodies played everywhere," says Nagpal, who still lives in Moscow. He has fond memories of Mishka, the Olympic Bear that was the mascot for the games. "He united people; there was no other symbol like the Soviet Olympic bear, never before and never after," he says.

Moscow was out of bounds during the games even for Soviet citizens who needed special permits to enter the city. The Soviet authorities asked foreign students to leave their campuses and move to special accommodation by the Volga River during the Olympics.

Students like Naresh Raina headed home to India. He vividly remembers the transformation of the city. "I departed from the Sheremetyevo 1 airport to go to India in the summer before the beginning of the Olympic Games and in September, I arrived back at Sheremetyevo II. I literally didn't know where I came. They built a new airport for the Olympic Games."

SPORT: Putin sowed seeds of success

The Russian judo revolution

Three gold medals at the London Olympics have made winners national icons and put Russia on the global judo map.

SERGEI IVANOV
RIBR

What Boris Yeltsin did with popularising tennis, his successor Vladimir Putin has pulled it off with judo, as shown by three gold medals won by Russian judokas at the London Olympics. On August 2, Putin, a black belt and judo enthusiast, led the celebrations when Khaibulaev won Russia's third gold in London, entrenching the country's dominance in the Olympics judo.

Putin, who was until two weeks ago Russia's most famous judoka, prioritised the development of judo during his first term as president. Judo, however, does not have the kind of international mass appeal and popularity that tennis enjoys. So, despite the fact that Arsen Galstyan won a bronze at the 60 kg event in the 2010 World Championships in Tokyo to add to the European gold won a year earlier in Tbilisi, hardly any sports commentator listed the judoka from the Krasnodar Region as a gold medal prospect.

The buzz around Galstyan started only when he shocked the international judo fraternity by defeating the number 1 ranked judoka in the 60 kg category, Uzbekistan's Rishod Sobirov in the semi-finals. The victory over Japan's Hiroaki Hiraoka in the final made the 23-year old an instant sensation across the country, especially in the flood-ravaged territory of Krasnodar that Galstyan calls home.

Galstyan's victory was toasted by the residents of the Krasnodar Territory as "our" victory and there is very little talk of the judoka's Armenian origins. This is, however, a great story for the southern Russian region that has occasionally been in the news for racial

flare-ups between ethnic Russians and immigrants from former Soviet republics. Galstyan was born in Armenia in 1989, when the country was a part of the Soviet Union. His parents immigrated later to Russia. By winning the gold medal in London and becoming a national hero, Galstyan has fulfilled the immigrant dream of his family.

After Galstyan struck gold in London, Mansur Isaev followed suit by defeating Japan's Riki Nakaya in the 73-kg class final to get Russia's second judo gold medal. He has now become an instant celebrity and household name in Russia. Isaev is also a poster-child for multi-ethnic Russia, being a Muslim and an ethnic Avar, a community with origins in the Republic of Dagestan.

It remains to be seen whether the governor of the Chelyabinsk Region will honour a pre-Olympic promise of giving \$1 million to each gold medal winner from the region.

One of the keys to Russia's gold haul in judo in London was the hiring of Ezio Gamba, who won a gold medal for Italy in the 71 kg class event in the 1980 Moscow Olympics. Both Isaev and Galstyan gave a lot of credit to their Italian coach and his rigorous workout regime. The seeds of success for the duo were probably laid by the Russian television channel. Galstyan spoke of his New Year's Eve meetings with the president. Besides encouraging Russian judokas, Putin was the brainchild behind the Zvenigorod Judo Academy, a facility that promises to produce many more champions. The London gold medals are transforming the way Russians look at judo and are sure to usher in a new wave of popularity for the sport.



President Vladimir Putin with London Olympic judo champions.

AESTHETICS: Check-out over 65,000 paintings, sculptures...

From Temple of Zeus to Van Gogh and Picasso

If you are going to Moscow, make sure to spend time at The Pushkin Museum of Fine Arts, which houses a dazzling array of paintings

AJAY KAMALAKARAN
RIBR

The Hermitage in St Petersburg, with its wealth of fine art, may be a class apart, but the Pushkin Museum of Fine Arts in central Moscow, which recently turned 100, can more than stand its own ground with the best museums in Europe. It has a dazzling array of over 650,000 paintings, sculptures, numismatic items and other works of art.

The museum has nothing to do with iconic Russian poet Alexander Pushkin, but was the brainchild of Professor Ivan Tsvetaev, father of Marina Tsvetaeva, a renowned Russian poet. The professor persuaded Yury Nechaev-Maltsov, a business baron of the early 20th century, to donate over 2 million roubles to construct the museum, which was initially named after Czar Alexander III. The Soviets re-

named the museum while celebrating Pushkin's centenary in 1937.

Spread over three buildings, the main building has a collection of sculptures from ancient Greece. Regular visitors comprising school children and art students marvel at the ancient works including a 5th BC statue of a horse driver from the shrine of Apollo in Delphi. There are also sculptured depictions from the same era of the temple of Zeus at Olympia and copies of Critius and Nesiotes bronze sculptures. The main building also houses Italian, Aegean, French and Spanish art.

For those who haven't seen Michelangelo's David at the Academic Galleria in Florence, a wonderful replica can be found at the Moscow museum. Italy is also represented by Botticelli's The Annunciation and Guardi's Alexander the Great by the Body of Persian King Darius. For visi-

tors to the Louvre, the Mona Lisa is the piece de resistance and when it comes to the Academia Galleria, visitors tend to ignore everything in their quest to find the original David. If one painting stands out at the Pushkin Museum, it is the The Red Vineyard at Montmajour, the only painting that Vincent Van Gogh managed to sell in his lifetime. The painting, which was completed in 1888, was sold for 400 francs in Brussels (around \$1,000 worth today).

Many paintings in the Pushkin Museum were moved there from the Hermitage when the Russian capital was relocated to Moscow in 1918. Other paintings were seized from Ivan Morozov and Sergei Shchukin, both well-heeled collectors in Czarist Russia, in the aftermath of the Bolshevik Revolution. Thanks to these two men, the collection at the museum is an art student's dream and has



Exhibition "From Rafael to Goya" visitor admiring paintings by El Greco and Artemisia Gentileschi.

works from Claude Monet, Edouard Manet, Pablo Picasso, Georges Dufrenoy, Paul Gauguin, Edgar Degas, Gustave Courbet, Paul Cezanne, Jean-Jacques Rousseau, Henri de Toulouse-Lautrec and Henri Matisse! Several of Picasso's paintings are from the Blue Period.

Over the last few years, the museum has been holding several exhibitions from its collection, along with works held by other great museums. These initiatives are usually supported by the diplomatic missions of the artist's origin countries. Svetlana Medvedeva, wife of then-president Dmitry Medvedev, inaugurated a Picasso exhibition with works from the Picasso National Museum in Paris in 2010. The museum's website is being regularly updated and has versions in seven languages.

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