

Translated and adapted
by Prof. Dr. Knut Richter

Russia: Reserves of the institutional development

- pre-condition and condition to overcome the economic crisis

The economic crisis revealed three connected peculiarities of the Russian development during the last decade:

- Increasing natural resources' specialization of the economy;
- Increasing aging of equipment and backlog in the scientific and technological development;
- Institutional barriers to the growth of the market economy.

During the last years new laws on land, on labor and the on de-bureaucratization of administration were adopted. New regulations for the legal system and the conception of an administrative reform have been developed and they are to begin to function. National development projects in the spheres of education, health, housing, agriculture were set up. (See Fig. 1) The questions are, however, at which cost was that done and, what does that mean for the economic growth, how fast is the new economy developing and will it be possible to overcome the “mono-cultural” specialization of the country. How can the economic growth become sustainable and steady? Has been done sufficiently enough for increasing the scientific and technological potential of the Russian Federation? There is, on one hand, the widely spread mythos in Russia that this country is the best country in the world. On the other hand, one has to look what the measured tendencies of the economic and social development really reveal. What does support and what does hinder Russia to transfer itself from an industrial society to a postindustrial society. All these questions are especially important during the deepening economic crisis.

1. The deepening of the natural resources' specialization of Russia

Russia keeps the first place in the world in gas extraction, asbestos and nickel production, the second place in extraction of raw oil, aluminum, production of bricks; third place in coal extraction, raw iron and milk production (see Table 1).

2002/2003	2004	2005	2006
<ul style="list-style-type: none"> • New land, labor, and custom laws • Package of laws to reduce bureaucratic interference in companies • Start of reforms in the electricity sector • New banking sector regulations • New rules and regulations for the judicial system 	<ul style="list-style-type: none"> • Creation of the Stabilization Fund • Start of acquisitions that significantly increase the share of the government or state-owned companies in the economy 	<ul style="list-style-type: none"> • Administrative Reform Concept • Law on Special Economic Zones 	<ul style="list-style-type: none"> • National Projects on education, health care, housing, and agriculture • Investment Fund for infrastructure projects • Russian Venture Fund and other venture funds • Competition law • Discussion on new legislation to limit foreign ownership in "strategic industries"

Fig. 1 Initiatives in the Russia economic policy in the first decade of the 21st century

Sources: Michael E. Porter and Christian Ketels, *Competitiveness at the Crossroads: Choosing the Future Direction of the Russian Economy*. Moscow. 2006. C. 77

Table 1

Place of Russia in the World (2007)

place	Export good	place	Export good
1	Natural gas, asbestos, nickel	5	Iron ore, cement
2	Extracted raw oil, Aluminum, brick, potato	6	Mineral coal, gold
3	Iron ore, milk, lignite	7	Cellulose, cooking oil
4	Electrical energy, Steel, Rolled steel plates, timber, Sugar beet, Saw timber, Mineral fertilizer, Cotton fabric, corn	8	fish
		9	Meat and chicken

Source: *Mineral Commodity Summaries 2008*, *Российский статистический ежегодник*, *Международное энергетическое агентство*.

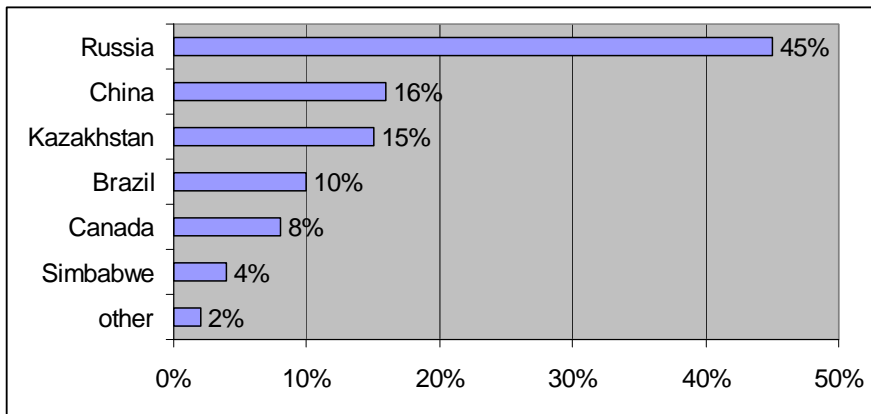


Fig.2: Leading asbestos producers (2007, %) Source: Mineral Commodity Summaries 2008.

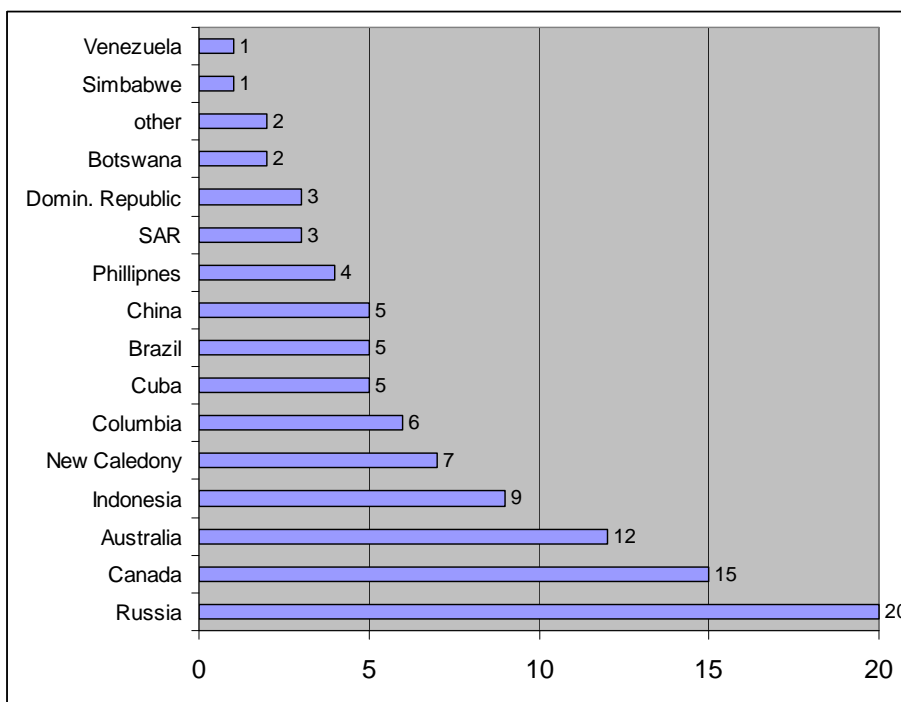


Fig. 3: Leading nickel producers (2007, %).
Source: Mineral Commodity Summaries 2008

2007 Russia produced 45 % of the world asbestos production (see: Fig. 2). This is more than what is covered by the next three countries – China (16 %), Kazakhstan (15%) и Brazil (10 %).

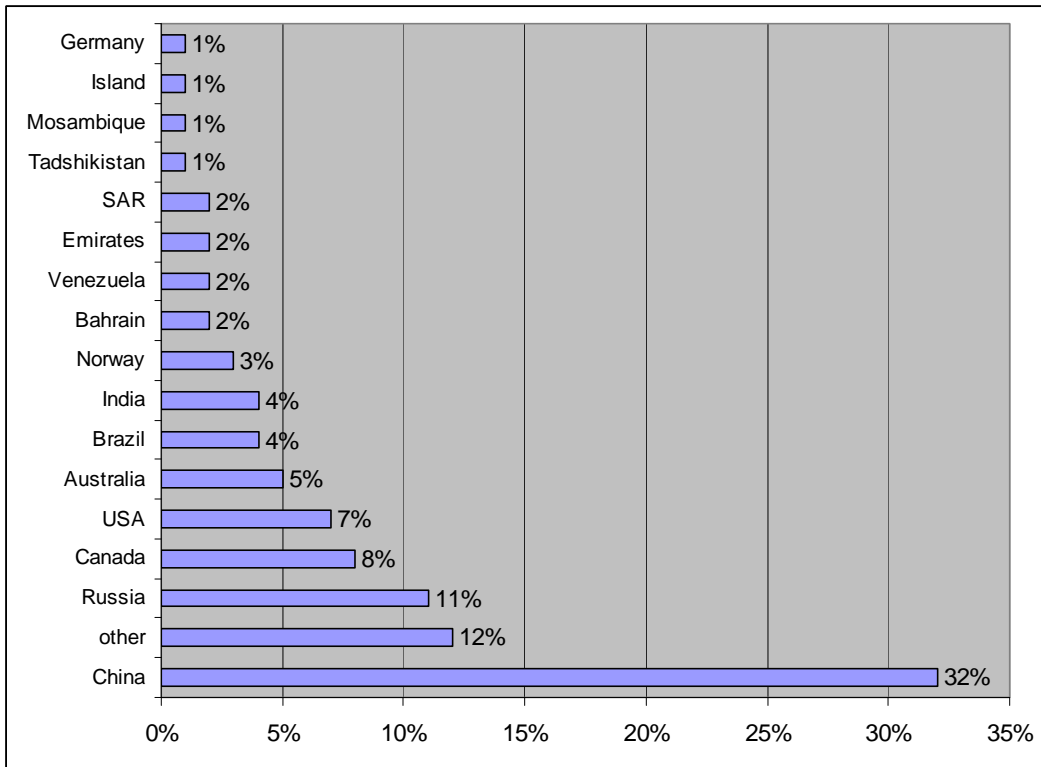


Fig. 4: Leading aluminum producers (2007, %).

Source: Mineral Commodity Summaries 2008.

Far ahead from the followers is Russia with respect to the production of nickel: In 2007 Russia covered one fifth of the world production (see: Fig. 3). Behind Russia are such producers as Canada (15%), Australia (12%), Indonesia (9%), New Caledonia (7%), and Colombia (6%). The contribution of the remaining countries, among them Brazil and Cuba, makes not more than 5 %.

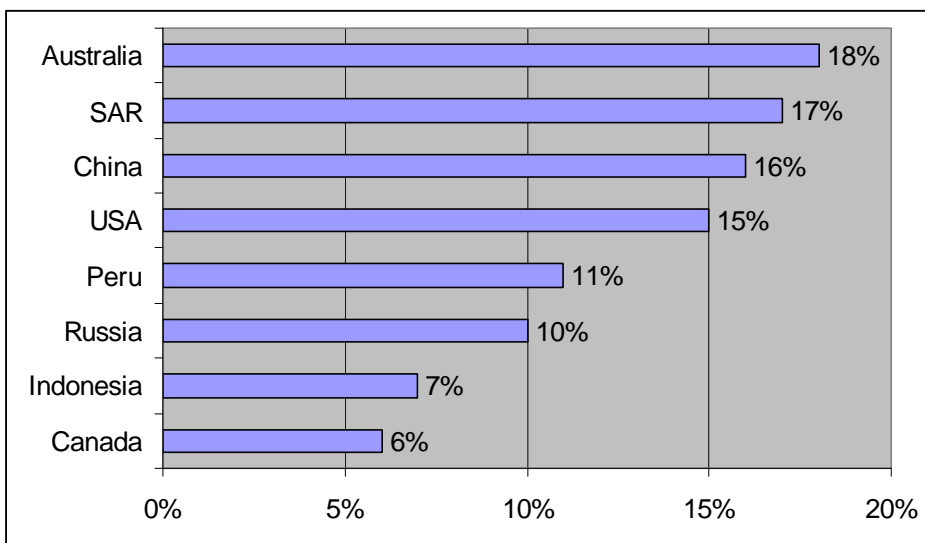


Fig 5: Leading gold producers (2007, %) Source: Mineral Commodity Summaries 2008.

Russia is the second aluminum producer behind China, which today produces every third ton in the world. (See Fig. 4). Russia produced 11% of the world market in 2007 which is much more than made by the highly developed countries such as Canada (8%), USA (7%) and Australia (5%).

Russia is also the sixth largest gold producer in the world (10% of the world market), behind Australia (18%), South Africa (17%), China (16%) and Peru (11 %, see Fig. 5).

Table 2

Russian share in extracting mineral resources (% of the world level)

	1995	2000	2007
Average population	2,6	2,4	2,2*
Extraction			
➤ Oil and condensate, tons	9,9	9,7	12,6
➤ Natural gas, m ³	27	23	27,2
➤ Coal, tons.	5,7	5,7	5,0
➤ Iron ore, tons	8,5	9,1	6,0

Source: international energy agency

In 2007 the Russian population covered 2.2 % of the world population. The contribution to some products is, however, much higher, if look at the share of 27.2 % of gas extraction, 12.6 % of oil extraction, 6 % of iron ore extraction and 5 % of the coal extraction (see Tab. 2).

Remarkable positions are hold by Russia concerning the production of mineral fertilizers (9.3% 2007), iron (7 %), steel (6.2%), electricity (5.3 %), saw timber (5.3 %) и cotton fabrics (3.5 %, see Table 3). Year by year the level of the automobile production is increased and reached 2007 the level of 2.4 % of the world market.

The success of the Russian industry is due to the changes of its place in the world wide specialization. The orientation of the Russia industry is moving closer and closer the solely natural resources' orientation. This can be seen by the Table 4, which displays the export structure of the Russian industry. Yet in 1995 the mineral natural resources covered 42.5% of the export, in 2007 this share grew up to 65.9%, while at the same time the export share of machine tools and equipment went down by two times – from 10.2% to 5.8%. If add to the mineral resources, timber, metal and jewels, then the share covers 80% of the export.

Table 3**Russian's share in industrial production (% of world production)**

	1995	2000	2007
Industrial production			
Electrical energy	6.5	5.7	5.3
Iron	7.6	7.7	7
Steel	6.9	7	6.2
Cars	2.1	2.3	2.4
Mineral fertilizers	7.1	8.5	9.3
Timber	3.6	2.8	3.3
Saw timber	6.5	5.3	5.3
Paper, carton	1.5	1.6	2
Cement	2.6	2	2.1
Cotton fabrics	1.9	2.7	3.5
Wool fabric	2.8	2.4	2.0
Shoes	1.3	0.9	...
Sugar	1.8	1.3	1.4
Fish	4.2	4	3.2

Source: RUSSTAT

Table 4**Export structure of industrial goods of the Russian Federation**

(in actual prices)

	1995		2000		2005		2007	
	Mill US \$	%	Mill US \$	%	Mill US \$	%	Mill US \$	%
Export – total	78,217	100	103,093	100	241,219	100	335,287	100
included:								
Food and agricultural goods (except textile)	1,378	1.8	1,623	1.6	4,536	1.9	8,257	1.8
Minerals	33,278	42.5	55,488	53.8	155,853	64.6	217,947	65.9
Chemicals, rubber	7,843	10.0	7,392	7.2	14,351	6.0	19,554	5.5
Raw leather and leather goods	313	0.4	270	0.3	330	0.1	290	0.1
Timber, paper	4,363	5.6	4,460	4.3	8,304	3.4	11,943	3.2
Textiles, shoes	1,154	1.5	817	0.8	934	0.4	592	0.3
Metal, jewels, goods from metal and jewels	20,901	26.7	22,370	21.7	40,884	16.9	54,697	16.3
Machines, equipment, transportation goods	7,962	10.2	9,071	8.8	13,503	5.6	17,795	5.8
Other goods	1,026	1.3	1,603	1.5	2,524	1.1	4,212	1.1

Source: Federal customs agency of the RF

This structure is so different from other countries. Even countries with low income have an export share of finished products for about 50% (see Fig. 6). The more this is true for countries with average income (64%) and with high income (81%). In Russian export just 21% are covered by finished products. Russia differs very much from other countries with respect to the share of fuel. While in the rest of the world it covers around 8% (in countries with high income – 5%, with average income – 17% and with low income – 28%, appropriately), in Russia it makes 50% of the export.

And, despite of this, in the last years the import of machines, equipment and transport vehicles increased significantly (from 33.6 % in 1995 to 47.7% in 2007) and for chemicals and rubber from 10, 9% in 1995 to 15.8% in 2007 (see Table 4). This tendency for more than a decade shows that the orientation to natural resources was not just conserved but even deepened.

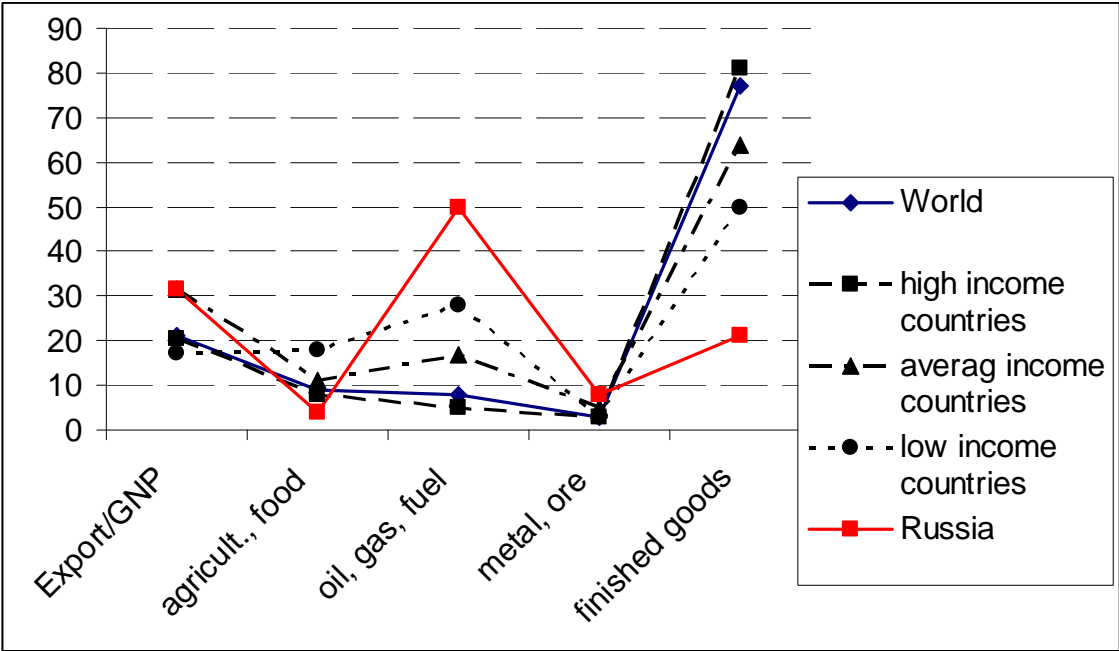


Fig 6: Export structure 2004. (%)

Source: 2006 World Development Indicators, Wash.: The World Bank, 2006

The structure of the Russian import is also really different from the tendencies in the world. While it is typical for most of the countries that in export as well in import there is a high share of finished products (see Fig. 7). In Russia the share of imported finished products exceeds the share of exported finished products by three times. In the Russian import structure food and agricultural products exceeds two times the import of such goods compared

with the import of countries with high and average income (18 % against 9%). This indicator is for Russia close to that of the countries with low income – 14%). And naturally, the import of fuel is for Russia just 3%, while for the rest of the world the share is 11 % (in countries with high income – 12%, with average income – 9% and with low income – 22%).

Table 5

**Commodity structure of the import of the Russian Federation
(In actual prices)**

	1995		2000		2005		2007	
	Mill US \$	%	Mill US \$	%	Mill US \$	%	Mill US \$	%
Import total	46,709	100	33,880	100	98,577	100	190,821	100
included								
Food and agricultural goods (except textile)	13,152	28.1	7,384	21.8	17,415	17.7	26,143	15.7
Mineral products	3,001	6.4	2,137	6.3	3,020	3.1	4,540	2.4
Chemical goods, rubber	5,088	10.9	6,080	18.0	16,266	16.5	26,716	15.8
Leather, leather goods	167	0.3	126	0.4	275	0.3	659	0.3
Timber, древесина и целлюлозно-бумажные изделия	1,104	2.4	1,293	3.8	3,279	3.3	5,037	2.9
Textiles, textile goods, shoes	2,644	5.7	1,991	5.9	3,617	3.7	7,877	4.0
Metal, jewels, jewel goods	3,956	8.5	2,824	8.3	7,651	7.7	14,347	7.7
Machines, equipment, transportation means	15,704	33.6	10,649	31.4	43,403	44.0	9,8075	47.7
Other goods	1,893	4.1	1,394	4.1	3,653	3.7	6,427	3.5

Source: Federal customs agency of the RF

The problem becomes more crucial due to the fact that the natural resources' stocks in Russia will be exhausted in the near future. This is true for oil and gas. The explored stocks last until 2030. The level of reproduction of oil and condensate stocks continues to be lower than the extraction level. In 2002 additional 254 mill tons were added to the known stock but the extraction comprised 380 mill tons, in 2003, appropriately 240 against 421, in 2004 about 440 mill tons of oil were extracted.

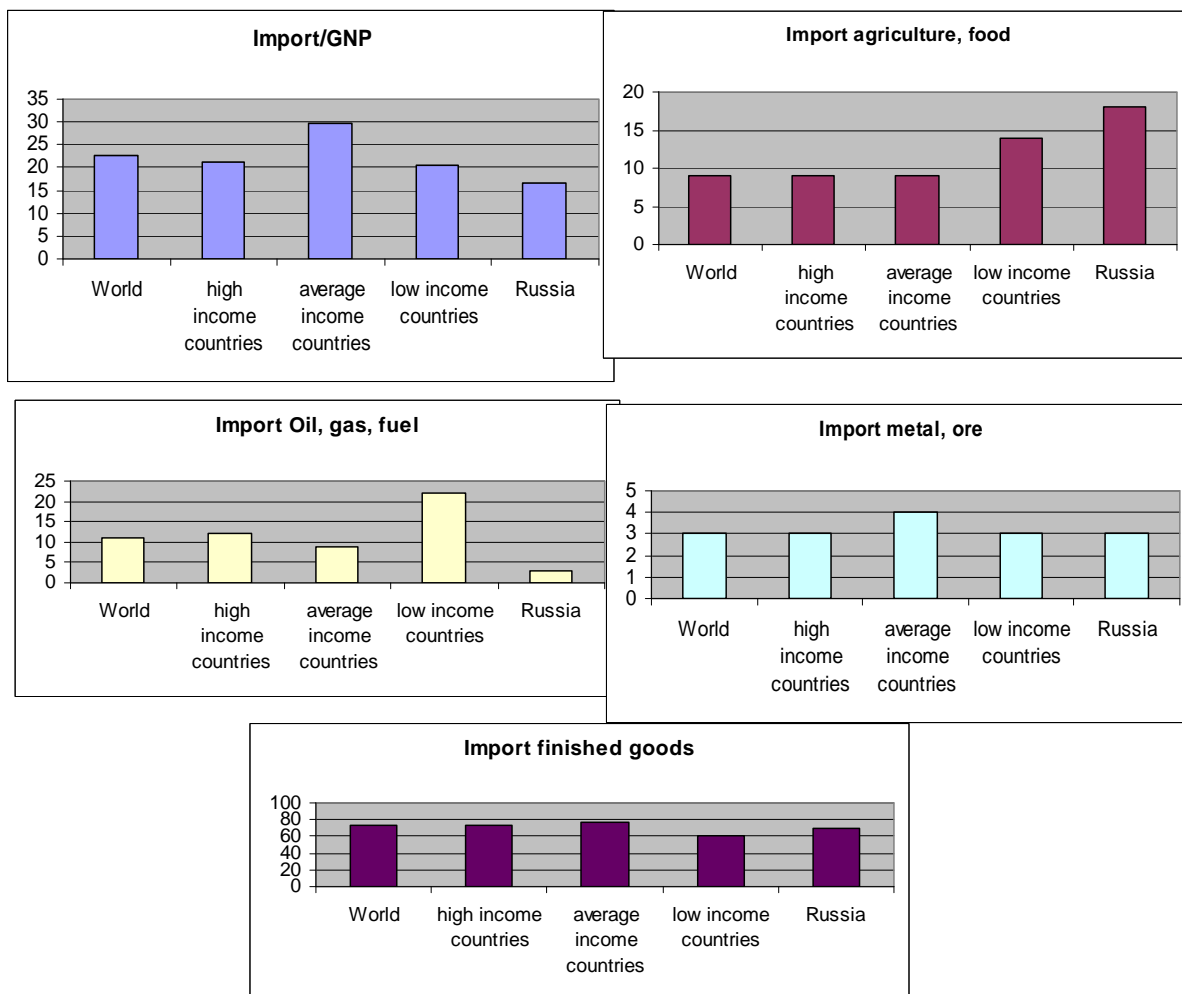


Fig. 7: Import structure 2004 (%)

Source: 2006 World Development Indicators, Wash.: The World Bank, 2006

Additional problems arise, since a significant part of natural resources was transferred from the state into private property. Today 92% of the oil stocks are distributed among the users, just 8% of stocks, which need heavy extraction capacity and cost, remain to be state property. The opinion is widely spread that the deficit of stocks can be covered by new exploration activities in eastern and western Siberia, at the far east of Russia and at sea. The cost of exploration, however, will be much higher. By using these additional sources the total production level can be increased to 490 mill tons in 2010 and even to 520 mill tons in 2020.¹

Russia, USA, Netherlands, Great Britain, Indonesia, Algeria, Saudi Arabia, Iran, Norway, Italy, Germany are the main gas producers in the world. Forecast published by the Inter-

¹ <http://www.kolokol.ru/Economy/m.66273.html>

national gas union say that the official world natural gas stocks comprise 398,000 bill m³ and non-officially comprise 400 – 650,000 bill m³.

With respect to the known stocks of natural gas Russia keeps 32% of the world stocks and 30% of the production. The total stock is 236,000 bill m³. The production covers 6% or 13.500 bill m³. The share of known is 20% or 48,000 bill m³. 73% of the stocks can be found in 22 large sites, which are responsible for 90 % of the production of gas. 2003 the total production was 595 bill m³. There are estimates², which say that, provided a well developing social and economic development can be expected, the gas production in Russia could be 645-665 bill m³ in 2010 and 710-730 bill m³ in 2020.

Concerning the security with natural energy resources the NIS countries are in good conditions. The oil stocks will satisfy today’s level demand for 30 years ahead, the gas stocks for 70 years and the coal stocks for 460 years (see Fig 8).

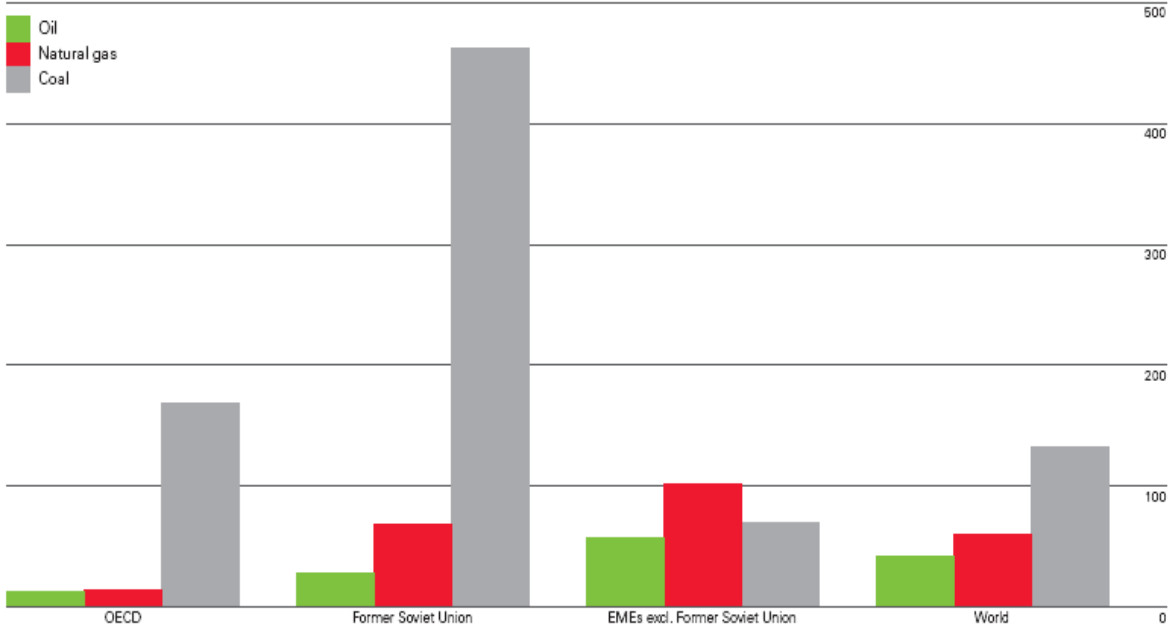


Figure 8: Fossil fuels (oil, Natural gas, coal) Reserves-to-production at end 2007
 Source: BP Statistical Review of World Energy 2008

The demand for coal in the OECD countries can be satisfied for 170 years. The gas (oil, coal) demand of the countries from Europe and Asia is satisfied for 100 (60, 70) years. Due to the danger of the exhausting of the resources the role of other development factors is increasing, mainly the role of man capital increases.

² ibid

It is not a surprise that in the time of crisis the one sided raw resource orientation of Russia led to significant problems for the country: rapidly decreasing oil prices dropped the export level seriously and bound the necessary import of machines and equipment, The importance of the scientific and technological potential of the country as basis for an innovative development becomes very important In the last years an acceleration of the scientific and technological development can be observed, while in Russia this process is more likely to slow down.

2. The slowing down of the scientific and technological progress

During the transition to the market economy aging (and wearing out) of the scientific and technological potential of the RF prevailed. While in 1970 more than 70% of the equipment was not older than 10 years, in 2000 almost 60% of the equipment is older than 16 years. The average age of the equipment increased from 8.42 years to 18.7 years³ (See Table 6).

Table 6

Age structure of the equipment in the RF

Years		1970	1980	1990	1995	2000
Total		100	100	100	100	100
Years' groups	0-5	40.8	35.5	29.4	10.1	4.7
	6-10	30	28.7	28.3	29.8	10.6
	11-15	14	15.6	16.5	21.9	25.5
	16-20	6.9	9.5	10.8	15	21
	> 20	8.3	10.7	15	23.2	38.2
Average age (years)		8.42	9.47	10.8	14.25	18.7

Source: ROSSTAT, 2008

The successes of Russian science are well known. At the same time, for the years from 1995 to 2006 the number of researchers decreased by 130,000, the number of technical personal by 35,000, the number of supporting personal by 60,000 and the number other personal by 30,000 either. (See Fig. 9). By the way, the scientific personal is distributed quite uneven across Russia, 40 % of them work in the Central Federal Region (in and around Moscow).

³ Unfortunately, in 2000 ROSSTAT stopped publishing the appropriate data

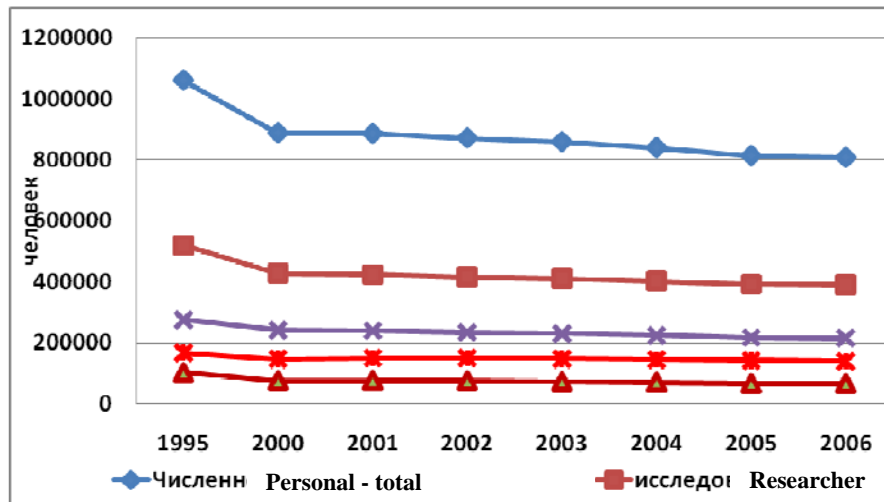


Fig. 9: Personal engaged in research and development 1995 - 2006

Source: http://www.gks.ru/bgd/regl/b07_13/Main.htm

The main source of financing research and development is now the business, which, however, focuses at recent practical problems. The fundamental research sector is therefore behind the world level (See Fig 10). A large part of research and development in the business sector is financed by the state budget. This situation can be viewed as **parasitism of the business at the state resources**⁴.

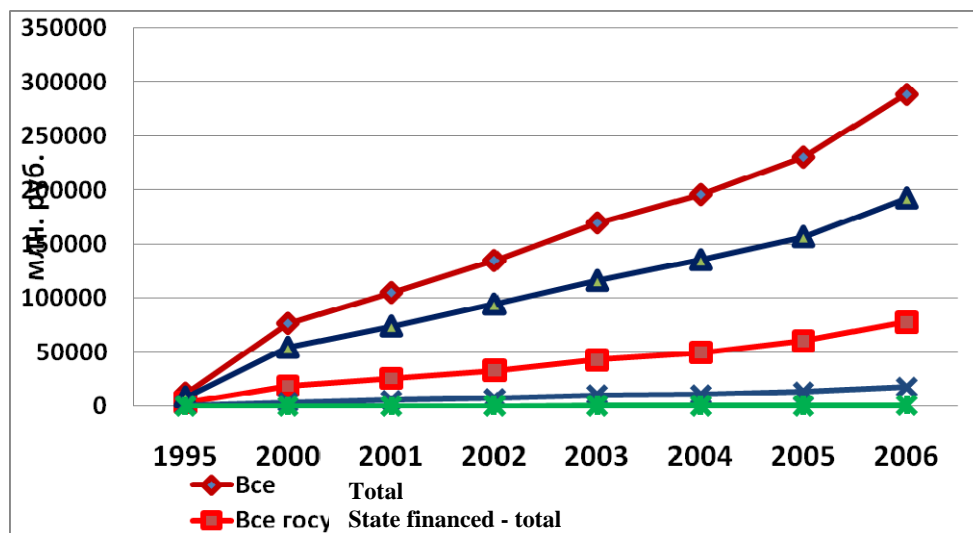


Fig 10: R/D funds for various sectors (1995 - Mill Ruble) Source: http://www.gks.ru/bgd/regl/b07_13/Main.htm

⁴ L. M. Gochber, Science statistics, Moscow 2003 (in Russian)

Table 7

Index of the innovation potential: place of Russia 2004

Rank	Scientists & Engineers Index	Innovation Policy Index	Cluster Environment Index	University Linkages Index	Company Operations and Strategy Index
...	Russia (9)
40	Italy	Greece	Morocco	Indonesia	South Africa
41	Latvia	Czech Republic	Russia	Portugal	Lithuania
42	Romania	Lithuania	Nigeria	Egypt	Mauritius
43	Argentina	Slovak Republic	Cyprus	Uganda	Egypt
44	Mozambique	Botswana	Bahrain	Turkey	India
45	China	Namibia	Turkey	Russia	Poland
46	Costa Rica	Bahrain	Estonia	Hungary	Jordan
47	Egypt	Italy	Ukraine	Jordan	Hungary
48	Trinidad & Tobago	Malta	Mexico	Jamaica	Mexico
49	Chile	Jordan	Slovenia	Bahrain	Tunisia
50	Cyprus	Chile	Lithuania	Costa Rica	Estonia
51	Macedonia	Morocco	Costa Rica	Greece	Portugal
52	Indonesia	Croatia	Philippines	Trinidad & Tobago	Pakistan
53	Mauritius	Serbia	Kenya	Panama	Panama
54	Tunisia	Tanzania	Panama	Namibia	Botswana
55	Morocco	Uganda	Greece	Madagascar	Morocco
56	Brazil	Egypt	Mauritius	Mali	Thailand
57	Turkey	Gambia	Czech Republic	Mauritius	Namibia
58	Uruguay	Russia	Colombia	Vietnam	Trinidad & Tobago
59	Malaysia	Trinidad & Tobago	Namibia	Botswana	El Salvador
60	Vietnam	Mali	Jordan	Tanzania	China
...	Russia (63)

Source: Unpublished data using the methodology described in "Ranking National Innovative Capacity: Findings from the National Innovative Capacity Index" by Michael E. Porter and Scot Stern (part of The Global Competitiveness Report 2003-2004).

Sources: Michael E. Porter and Christian Ketels, *Competitiveness at the Crossroads: Choosing the Future Direction of the Russian Economy*. Moscow. 2006. p. 56.

In general, the innovation system in Russia is strong at the input and relatively weak at the output. Russia spends traditionally a substantial part of the GNP for research and development. However, a large fraction of these funds are used to keep a large number of state research institutes, which remain to function rather independently from the higher education system and the real problems of business. Yet commercial organizations do not support science significantly. They are content with the opportunities of extensive growth by extending the market, and not by intensification. It is, therefore, no surprise, that most of the development results of Russian researcher are patented in other countries. These countries understand very well the potential of Russian science and try to use these resources.

The efficiency of investments into science is seen by the innovation level of a country. The index of innovation potential is setup as combination of five sub-indices: index of scientists and engineers, index of innovation policy, index of clustering, index of close relation

with universities, and index of strategic policy of companies. The place of Russia with respect to these indices is shown in Table 7.

The RF keeps the 35th place if the innovation potential is ranked. The distribution of the sub-indices is, however, widely strewed (See Tab. 7). While the RF keeps the 9th place with respect to the index of scientists and engineers, it keeps the 41st place for clustering, 44th place for connection with universities, 58th place for innovation policy and even the 63^d place for strategic policy of companies. By this spread of indices the rather low efficiency of the innovation processes is expressed. As a consequence, with respect to the number of patents registered per 1,000 inhabitants on the world market, Russia is significantly outperformed by India and China (See Fig. 11).

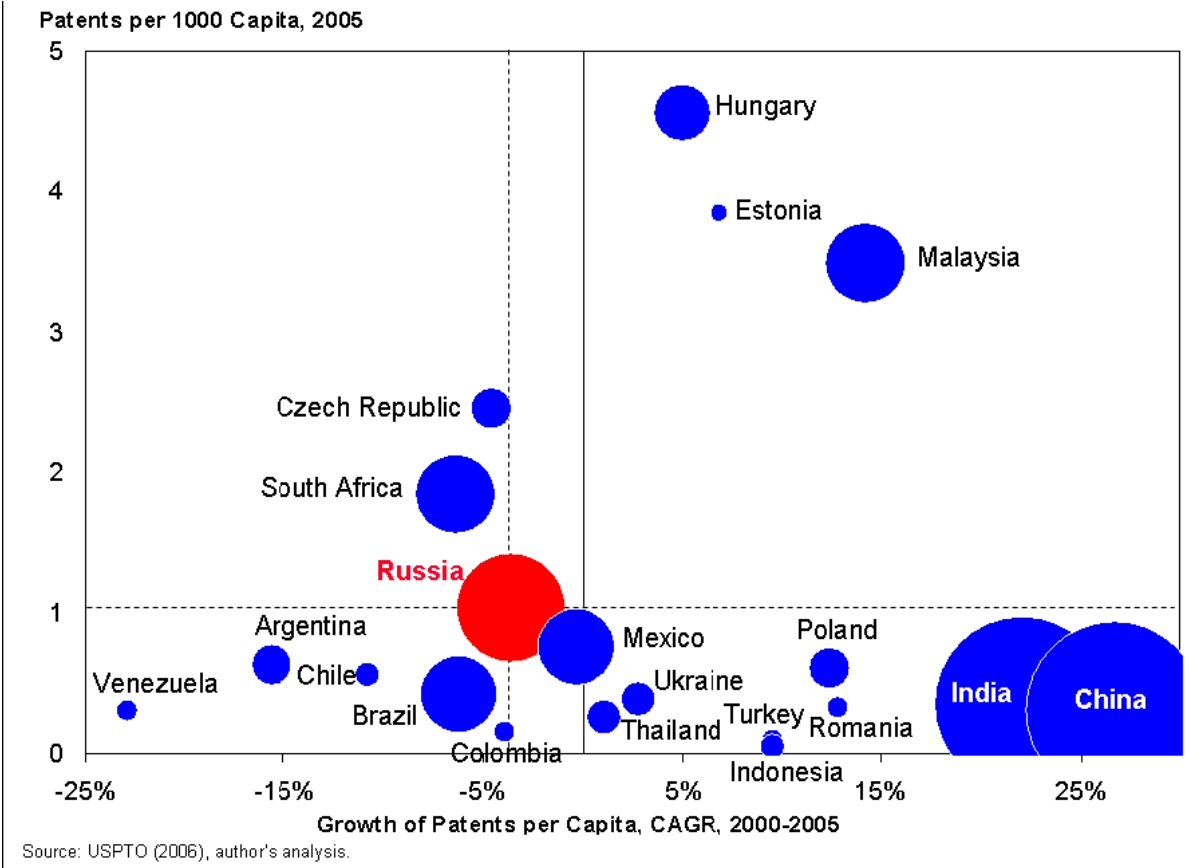


Figure 11: U.S. Patenting Rates, Russia and Selected Peers, 2000-2005
Sources: Michael E. Porter and Christian Ketels, Competitiveness at the Crossroads: Choosing the Future Direction of the Russian Economy. Moscow. 2006.C. 37

3. Institutional barriers to the growth of the market economy

Starting from 2004 the World Bank is publishing reports called „Doing Business”, which analyze the experience of the introduction of reforms in various countries. The ease of doing business in 180 countries of the world is ranked by groups of indicators, which cover the following areas such as:

1. Starting a business;
2. Dealing with construction permits;
3. Employing workers;
4. Registering property;
5. Getting credit;
6. Protecting investors;
7. Paying taxes;
8. Trading across borders;
9. Enforcing contracts;
10. Closing business.

With respect to the conditions for good entrepreneurship the RF keeps the 120th place among the 180 countries. In the last years this situation did not only improve but became worse for the business (See Table 8).

With respect to the conditions of setting up business the RF keeps the 65th place, and the 180th place for getting licensees and permits. The most rich as well as most poor countries are characterized by procedures for getting licensees which are not too complicated. The principle, which can be recommended, is very simple: simplification! Very complicated procedures do not only make the business more difficult, but contribute to the growth of corruption. If the procedure is complicated and problem with the registration of the company occur, it is simpler to bribe administrators.

Table 8

The place of Russia in the ranking of making business

Easiness	2007	2008	2009
1. Starting a business	33	52	65
2. Dealing with construction permits	163	180	180
3. Employing workers	87	100	101
4. Registering property	44	46	48

5. Getting credit	159	102	109
6. Protecting investors	60	84	88
7. Paying taxes	98	136	134
8. Trading across borders	143	162	161
9. Enforcing contracts	25	18	18
10. Closing business	81	83	89
Ease of doing business	96 (175)	112 (180)	120 (180)

Source: Doing Business 2009

The next indicator to be considered is for labor relations. The labor codex has the goal to defend the employees from not correct actions of the employers and from wages' discrimination. The point is to find the right balance between labor markets flexibility and stability of the working places. Unfortunately, most of the countries are characterized by over regulated labor relations. This situation is neither fortunate for the employer not for the employees. The RF is not exclusion and keeps the 101st place in the middle of the 180 countries.

The rank of the conditions of property registration is determined as the mean of the ranks concerning the number of necessary procedures, the registration terms and the registration cost. Here the RF keeps the 48th place. Unfortunately, many countries suffer from complicated procedures of property registration, how stated Ernando de Soto⁵. The more complicated the registration procedure, the more assets are kept as illegal property. The more illegal property exists, the less it can be used as security for getting loans. The less is the value of the business, the less are the incentives for investors to invest.

For doing business it is crucial not only to get permissions, register property and hire personal but also to get credits for expending the business. Necessary conditions of a well functioning system of getting and granting credits are the access to information on creditworthiness of potential borrowers and practical and simple rules for agreeing about securities. In the developed countries it is the easy access to information on creditworthiness of the population just normality. On the opposite, it is a sign of underdevelopment – and a common feature of many underdeveloped countries – if this information is not available: Russia keeps the 109th place in the ranking on credit getting!

Protecting investors is the next indicator. It is well known that the real markets as well the financial markets grow very well, if cheating is punished by law. Therefore the require-

⁵ Де Сото Э. «Загадка капитала. Почему капитализм торжествует на Западе и терпит поражение во всем остальном мире». М.: 2001, С. 56-70.

ments to open information are very strong in the developed countries, and investors can protect their interests via court. The RF keeps the 88th place in the appropriate ranking!

Another indicator, which displays well doing business, is tax paying. Of course, no one likes paying tax, and for someone this desire not to pay is stronger. Not to pay tax – it is a national sport at Ukraine, Belarus, Columbia and Mauritania. The RF keeps here the 134th place. In 2007 the average number of different tax payments was about 23. A company has to spend about 256 hours per year for tax payment. The total tax rate goes up to 54.2% of the gross margin. For fighting the corruption in this sphere the tax system must be simplified, the tax rate has to be lowered and exclusions have to be eliminated.

An important indicator for the international business is the participation of a country in the international trade. Problems occur in this field, first of all, with respect to the shipment of goods across borders. There exist barriers such as delayed shipments, lengthy document processing, and great variety of administration fees. They hinder the development of the business in many developing and transition countries. Today mechanisms are known to reduce these fees such as regional trade agreements between countries, unification of document standards, electronic forms of document transfer etc. These transaction fees are 3.5 times lower in the developed OECD countries than, for instance, in the countries of South Asia or tropical Africa.

In the international trade ranking the RF keeps the 161st place. On the average, in 2007 eight different documents were needed for export and import, appropriately. Preparing these documents took about 38 - 39 days. The operational fee for exporting or importing one container was 2,237 US \$.

Real business cannot function without trusty contract fulfillment. In a society, where the trust level is high, the contracts are fulfilled, as it is believed by a neutral observer, more or less automatically. In reality, there exist mechanisms to secure contract enforcement. The time needed for contract enforcement differs significantly from country to country. This time is two times larger in Latin America and even three times higher in Asia than in the developed OECD countries.

An efficient system of contract enforcement consists is characterized by three features: the quantity of enforcement procedures, the enforcement time, and the enforcement cost (% of numbers of enforcement procedures, needed time and cost (B % of the debt or value). In the developed countries the procedures take 100 – 200 days on the average and in the least efficiently functioning countries 3 – 4 years. The enforcement cost does not exceed 10% in the

countries with simplified procedures and more than 100% in countries where the enforcement system works badly.

The terms and cost can be reduced if the legal procedures are simplified. At specialized courts many formal procedures can be simplified. For instance, oral argumentation is allowed, while the same at general court has to be given in written form. The RF keeps the 18th place with respect to the enforcement procedures. In 2007 the average number of procedures was 31, 188 days were needed and the cost was about 13.5% of the debt.

The contemporary meaning of the word bankruptcy steams from the Italian “banca rotta” – broken bank. The question was if the borrower was not able to repay the debt, the bank on which he was sitting was broken, often on his head. Today bankruptcy does not result in physical consequences, but it is yet more painfully than necessary. Therefore, at the end, the problem of closing business in different countries will be discussed. The highest norms to bankruptcy procedures can be found in the developed OECD countries, and the lowest norms in the countries of tropical Africa and South Asia. In Ireland, Japan, Taiwan, Belgium, Finland and Norway the procedure lasts less than one year, but in Chad or India at least 10 years. The cost of the bankruptcy procedures also differ very much. In such countries as Antigua and Barbuda, Columbia, Kuwait, Netherlands, Norway and Singapore they constitute not more than 1% of the value of the business, in other countries as Central African Republic or Laos they exceed 75% of the value. Russia keeps the 89th place in that ranking. In 2007 the average time for a bankruptcy procedure 3.8 years and the average cost was 9% of the value. The compensation rate was 28.7 US cent for one US dollar.

As it could be seen, in the RF there are many obstacles for the development of the market economy. The main conclusion is rather obvious: the business transaction cost have to be decreased. This will increase the efficiency of the economy; create conditions to overcome the crisis faster, rising the welfare and speeding up the development of the Russian economy.