

A FEW ASPECTS OF GLOBALIZATION IMPACT ON RUSSIAN ECONOMY AND LAW

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Abstract

The Russian Federation is strongly involved in globalization process. As a part of the BRIC countries Russia tries to become an industrial country, to develop manufacture and concurrence. Recently the Russian Criminal Code was revised in order to make Russia more attractive for investors. The punishments for the significant part of medium and little gravity economic crimes were commuted. By the Federal Statute №244 from September 28, 2010 "About Innovation Centre "Skolkovo" Innovation Centre Skolkovo was established in 2010 year. December 16, 2011, Russia joined the WTO. The legislation in the Russian Federation develops very fast and tries to conform to necessities of the day. Accession to the WTO and fulfilment of taken obligations, creation of conditions for development of innovations with liberalization of laws directed at facilitation of conditions for running business should, hopefully, raise the competitiveness of Russian economy and lead in the future to the transformation from raw-materials orientated to developed industrial economy.

Keywords: globalization, innovation, Russian law, WTO, income tax, Skolkovo.

JEL Classification: A12, D 40, E 50, E 60, E 61.

Introduction

The Russian Federation is strongly involved in globalization process. As a part of the BRIC countries Russia tries to become an industrial country, to develop manufacture and concurrence. According to different financial institutions such as International Monetary Fund, Deutsche Bank and others, its' gross domestic product in 2012 year will grow 3,5-4%, which is quite good comparing to European Union and American GDP indicators (Tanas, 2011). Last year Russia entered the WTO and its national legislation began to change in order to harmonize with legislation of developed countries. The main object of such changes was to improve investment climate and to diminish the pressure of state authorities on business owners. But still all measures aren't enough. Nowadays it is necessary to change and improve national legislation in order to regulate economy effectively.

Liberalisation of legislation

Recently the Russian Criminal Code was revised in order to make Russia more attractive for investors. According to the Federal Law of the Russian Federation № 420 from December 7, 2011 "About amendments of Criminal Code of Russian Federation" ("Rossiyskaya gazeta", N 278), a person who committed little or medium grave economic crime (like non-payment of tax) for the first time, could be released from criminal liability if one has paid damages to the State Treasury of the Russian Federation. The punishments for the significant part of medium and little gravity economic crimes were commuted. Now for the most of such crimes the imprisonment will be replaced by fines. As a result, suspects in such type of economic crimes could not be arrested before the trial. This amendment should prevent the possibilities of police and investigators pressure on business owners. This should also decrease the pressure from law enforcement agencies and let business owners, suspected in little and medium grave economic crimes, to continue their work without restrictions. Moreover, it could save workplaces. Such amendments of the Russian law lead to decrease of imprisonment of business owners. Thus, according to the Firstnews, the quantity of business owner's arrests was shortened twice in 2011 ("The number of the arrested businessmen decreased more than twice"). On February 13, 2012, the Chairman of the Russian Supreme Court, Vyacheslav Lebedev reported to the Russian President Dmitry Medvedev that the quantity of arrests was reduced by 58% in 2011 year. In 2001 366 thousands of such arrests were made and in 2011 only 136 thousands. Nowadays judges of economic crimes prefer to implement bails (in 2011 year 41 million roubles (about 1.4 million USD) was paid as a bail) and home detention ("Lebedev reported to Medvedev that courts arrest businessmen more rarely"). The liberalization of the Russian Criminal Code is directed at protection of business and business owners from corrupted officials. Recently established fines will enrich the Russian budget which could help government to solve important social problems.

According to the above-mentioned Law № 420, many types of economic crimes became less grave. Home detention as a preventive punishment now should be used by judges in the mentioned cases. Its' application is regulated in detail by the Law № 420.

Also, by the Federal Statute №419 from December 07, 2011 "About amendment in the Criminal Code of the Russian Federation and in article №151 of the Criminal Procedure Code of the Russian Federation" the criminal responsibility for creation of false legal person was established (" Rossiyskaya gazeta ", N 281). Such legal persons are widely used in Russia in order to commit illegal deals, to cash the money from bank accounts illegally, to insert the assets.

On December 26, 2008the Federal Statute №294 "About the protection of the rights of legal persons and sole traders during the realization of state control (supervision) and municipal control" ("Rossiyskaya gazeta", N 266) was enacted. The importance of that statute is not only in the limitation of the rights of the supervised state authorities, but also in the official recognition of the fact that business owners in Russia need to be protected from the undue pressure of the law enforcement agencies. It indicates the line of development of the Russian legislations directed on reduction of such pressure. According to the Statute № 294 scheduled inspections could not be conducted more than once in 3 years. The schedules of such inspections should be approved by the Public Prosecutors office for the next year. The possibilities of the state agencies to conduct the unscheduled inspection and by that to interfere in business were limited. Now they could not come to the company for any kind of inspection without three special legal grounds indicated in that statute and only with local public prosecutor's office's approval. Also the duration of such inspections was limited.

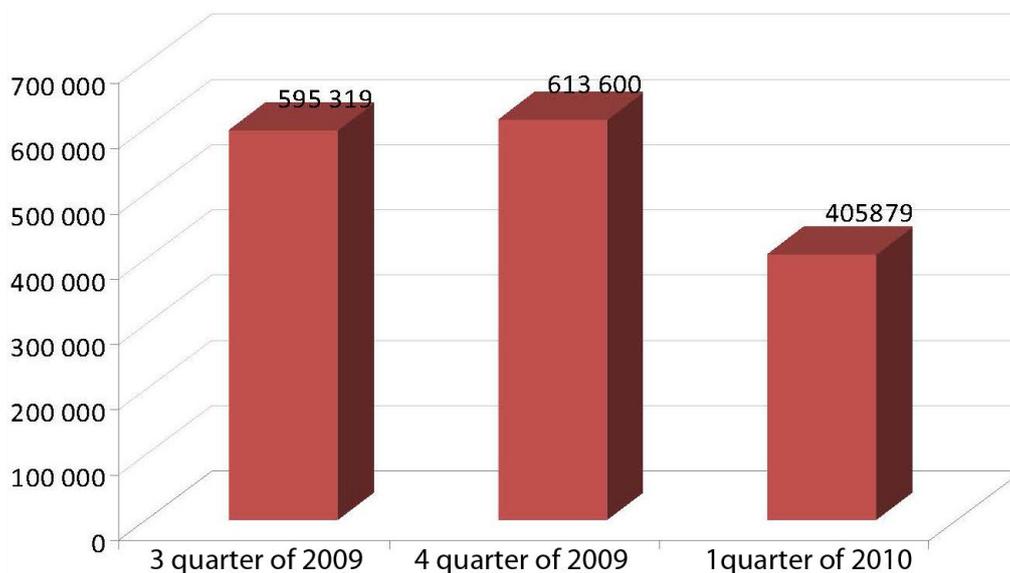


Figure 1. Distribution of inspections quantity by periods
(quantity of inspections, according to information of federal executive authorities) –
information of Ministry of Economic Development of Russian Federation

As compared to the third quarter of 2009, in the first quarter of 2010 as a result of federal statute №294 adoption the quantity of inspection reduced for 32 percent (The report of Ministry of Economic Development of the Russian Federation «About the condition of system of the state control (supervision) and municipal control in the Russian Federation»).

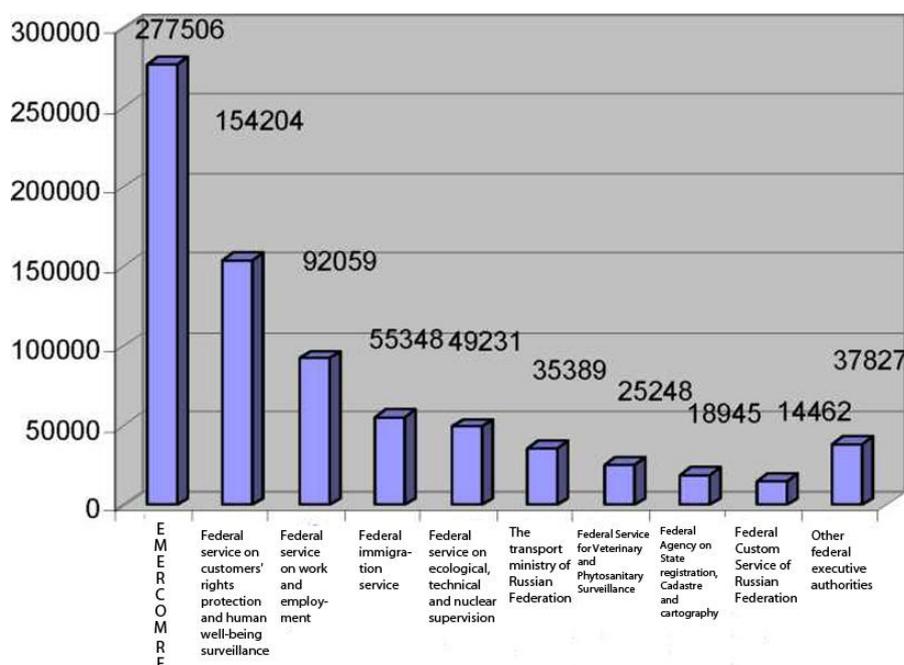


Figure 2. Federal executive authorities - leaders on number of the carried out unplanned inspections (quantity carried out for investigated the period of unplanned inspections, piece)

Development of innovations

The Russian president Medvedev declared that Russia should create and develop innovations. Now Russian economy is raw-materials orientated. Since Russia is rich in minerals, oil, gas etc., it is easier and cheaper to sell natural resources than to create new, competitive products. As a result of globalization and connections between states, the Russian Federation has enough possibilities to sell raw materials. But such type of economy makes other spheres of economy less attractive for investor and less profitable. By the Federal Statute № 244 from September 28, 2010 "About Innovation Center "Skolkovo" (" Rossiyskaya gazeta", № 220) Innovation centre Skolkovo was founded in 2010. The main object of Skolkovo is to develop researches, innovations and its commercialization. The city for implementation of innovation projects with well-developed infrastructure for developers of new products should be built. Special managing company was founded to control the realization of this project. There are five clusters in Skolkovo for creation and development of new products in IT, space technology and telecommunications, biomedical technology, energy-effective technology, nuclear technology. There is a technopark in Skolkovo, where the Skolkovo residents could get necessary equipment, offices, consulting, support in authorization of patent rights, expertise, participation in state orders and tenders. Technopark Skolkovo prepares association agreement with Technopark Zurich for effective model of technopark creation. The Open University of Skolkovo and Institute of science and technology Skolkovo with Massachusetts Institute of Technology were founded to provide future innovators with additional master-classes, lectures, meeting with famous business-owners. For participants of Skolkovo projects will be built a city – houses for 21 thousand of residents and another 21 thousand will come for work with all necessary infrastructures for living and for working.

By November 1, 2011 Skolkovo foundation finance 44 innovation projects for 5352 million roubles (about 184 million US\$). Budget of Skolkovo for 2011 was about 640 million US\$ ("The report on Skolkovo Foundation budget performance for November 1, 2011"). 22% of year budget of Skolkovo is spent for construction of engineering infrastructure and service zone.

According to the Federal Statute about Skolkovo № 244, special tax concessions were established. The residents of Skolkovo are released from payments to the Social Insurance Fund, the Obligatory Medical Insurance Fund. They pay reduced insurance fee and do not have to accounting. Residents of Skolkovo should not pay income tax and VAT if their revenue is not exceed 1 billion roubles (about 34 500 000 US\$) a year. They can also get other tax remissions. Skolkovo should become a place where innovators could realise their ideas and make it profitable. All necessary conditions and infrastructure will be created for it.

According to different researches (data from RBC-daily journal) manufacturing companies in Russia in order to raise the profit prefer increase in price (23%), reduction of expenses (21%), analyses of

effectiveness (19%), innovations (15%). Only business-owners from Saint-Petersburg (26%) believe that implementing of innovations can increase their profit (Falyahov, 2009). Researches indicate that Russian business owners are not ready to invest in innovations because the payback period is too long (7-10 years).

By making the requirements for state orders the Russian Federation could create the necessity in innovations through fixing higher quality and modern products for governmental use. But in the Federal Law № 94 from July 21, 2005 "About placing of orders for delivery of goods, execution of work and rendering services for state and municipal needs" (" Rossiyskaya gazeta", N 163) the price is still the main criteria for such orders.

The new law on innovations is discussed in the Russian Parliament (The project of the Federal Law "On innovative activity in the Russian Federation"). It will provide three forms of governmental support of innovations – organizational, informational and financial, such as government financing, credits and state guarantee. But after all those measures, financial aides, tax remissions etc. there aren't any significant results or real burst of innovation activity. There are few companies who manufacture some new promising products such as Yandex or Kaspersky. But, hopefully, membership in the WTO and expansion of international connections, when import goods will come to Russian market easily, will create free competition and it will burst innovation process.

Membership in the WTO

On December 16, 2011, Russia joined the WTO but the ratification process should be finished by June 15 2012. After 30 days the Russian Federation will officially become a member of that international organisation. It is a great possibility to become a country with developed economy. According to the conditions of accession to the WTO (Russia's accession to the WTO Official website) Russia is obliged to reduce barriers for import goods, services and investments. Thus, weighted average import tax should be reduced from 10% to 7, 8% in 2011, average agricultural tariff from 13,2% to 10.8%, average import tax for industrial goods – from 9.5% to 7.3%. Some import tariffs should be reduced immediately after joining the WTO, but others like tariffs for poultry (in 8 years) and cars, helicopters and planes will be reduced later (in about 10 years). At the present the Russian Government supports agricultural sector and meat producers, but in 7-10 years they should take measures to be able to compete with prices and quality of foreign suppliers. In 9 years foreign insurance companies will come to Russia. This leads to price reduction for insurance services caused by increase of concurrence. It will help business owners and consumers reduce costs in that sphere. Since 2013 Railway tariffs should conform to the WTO requirements. Many others tax reductions will come in force after joining the WTO (for example, sugar import tax, dairy import tax etc.). Russian business should be ready to compete with foreign technology. Russia could get a huge profit from that membership, but some spheres of economy, such as car industry, food industry, electronics, that get governmental support, subsidies and protection, could suffer damages. Success of the WTO membership depends on how Russian business owners are involved in globalization and if they are ready to learn, use and implement foreign innovations.

One of the biggest obstacles for importers is the Russian Custom. The period of custom clearance is too long. It could take months in special cases. Now electronic custom clearance procedure can be used in Russia. The period of custom clearance should take a few hours (Fursova, 2012).

Inner Russian taxes are so high that legal business is often non-profitable. Progressive taxation scale for income tax is widely discussed and was a part of election programs of almost all political parties but when it comes to application, nothing happens. Hopefully, involvement in globalization process and positive experience of other countries with progressive taxation scale for income tax will lead Russia to tax reforms. Membership in the WTO gives Russian export goods most favourite nation treatment in foreign markets. That will reduce tax expenses and will make it more attractive for foreign consumers, so accession to the WTO should 'burst' Russian manufacturers and, as a result, the whole Russian economy.

As a result of globalization economic problems in one country could provoke damages in other country and laws should secure investors and make restrictions to prevent losses. The influence of globalization on the Russian economy is huge and authorities should improve Russian legislation to create possibilities for national manufacturers to enter the international market, to be competitive with foreign goods, to create innovations. But also it is necessary to create terms and requirements in banking and investment spheres to secure and protect bank depositors, reduce risks of negative impact of economic problems in other countries which, because of close economic connections, could affect Russian investors. The Russian Central Bank is going to oblige banks to disclose more information about lend ("Banks will be

obliged to disclosure additional information on loans”). This measure could help professional investors predict and evaluate the growth in banking sphere correctly.

The legislation in the Russian Federation develops very fast and tries to conform to necessities of the day. Joining the WTO and fulfillment of taken obligations, creation of conditions for development of innovations with liberalization of laws directed at facilitation of conditions for running business should, hopefully, raise the competitiveness of the Russian economy and lead to the transformation from raw-materials orientated to developed industrial economy in the future.

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