



Photo: Alexei Kudikov

“There is potential in Russia to get back to a path of modernisation and economic reform, and also to move more purposefully toward closer integration with world’s economic system”

Sir Roderic Lyne, Special Advisor to HSBC and Former British Ambassador to Russia emphasises the importance of ‘implementation’ in Russia’s continuing economic evolution

Sometimes it is claimed that President Putin does not understand economics, yet recently he spoke out criticising the underdevelopment of small and medium sized enterprises, which is clearly of critical importance. What is your impression of the administration’s attitude to the development of business?

One can only say look at the results: The growth figures for Russia for this period, overall, have been very good and there was a serious impulse towards the modernisation of the Russian economy. There is also a recognition, however, that this must not just be for

big business but that the more dynamic development of small and medium sized enterprises must be encouraged.

It is not the recognition that is lacking; I think it is the implementation. The big businesses – and the big businesses in the state sector – always seem to get bigger. Gazprom never seems to get smaller and the restructuring of UES still hasn’t happened. When you have these big behemoths, they do tend to shut out a lot of the light from people underneath.

One must ask, what are the factors that have impeded some of the development of small businesses? There is

a lot of small business in the ‘grey sector’ but there are also various different impediments – there are bureaucratic obstacles, red tape, levels of corruption and getting permission can be very difficult.

Getting capital is another serious problem for small businesses, ie start-up capital and the credit that businesses need in order to expand. This is especially important in a country where the banking system is still pretty ineffective, where most banks are undercapitalised and a lot of the large banks are not able to provide services to small businesses. If you are an entrepreneur



trying to start up your business there are not the institutions which you can go to that you should have in this kind of economy.

The third major impediment has been people's security and vulnerability to action by rival interests. This has not got worse, nor, I think, has it got better.

Some medium-sized businesses have developed in recent years, flourished and done very well therefore it is not true to say that this doesn't happen in Russia. You could quote a string of examples. One which constantly comes to mind is the success of IBS – which in the nearly five years that I was in Moscow, grew from 1400 employees to 5000, and was very successful at winning contracts from overseas. While it can happen, the total number of small businesses – particularly as you go beyond Moscow – is clearly inadequate for the economy.

What positive trends would you highlight?

One of the encouraging things in the current climate is that there has been a drive to develop a knowledge-based economy so that Russia isn't just dependent on raw materials, energy and the production of defence equipment, which is the country's main manufac-

tured export. This is clearly the brief of the Minister of Education and Science, Andrei Fursenko, who has a background in innovation in St Petersburg and was mandated by the President to help restructure the education and science system to promote this objective and make use of the fantastic human resources that exist in Russia.

In Britain, a country with a population just over a third of the size of Russia, you have – just in the IT sector alone – around 100,000 companies. This is about one quarter of the total number of small and medium sized companies in all sectors in the whole of Russia. Creating the environment in which companies can use Russian brains and the entrepreneurial abilities, which undoubtedly exist, needs to be the way forward if Russia is going to be a competitive modern economy.

What is the focus of your work with HSBC and how does that fit in with the bank's strategy?

I am advising any part of HSBC that wants advice on Russia and the CIS, which at the moment is primarily Investment Banking. I am also in touch with the Private Banking and Commercial Banking divisions.

HSBC is developing its Russia

strategy and intends to have a bigger footprint in Russia. HSBC is a bank that doesn't tend to rush into things, but which takes a strategic approach. It does market itself as a global bank with a local approach. When you look at its spread around the world, it is huge in all areas except in Russia, where it is not as big as the other really big global banks. The strategy is to build that up – certainly through investment banking but not only. This will be a step-by-step approach. I only advise and am not their spokesman, so it is not for me to announce a strategy that is still in the course of evolution, but like other major international banks and companies, this is an organisation that has decided that it needs to have a position on Russia and a position in Russia for lots of obvious reasons. The economic development of Russia is on a very significant scale, even if it is a rather complex process that doesn't always go in one direction.

HSBC is seeking to play to the traditional strengths of the bank. It has some investment banking activity, where it has recognised expertise, which it will seek to market in Russia.

Do you think that Ukraine is being over-hyped?





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Yes – in the sense that the political events that led to the Orange-revolution created a very strong sense of euphoria and put Ukraine on the front pages. You now have an administration and a president that is certainly talking the kind of talk that the international business community wants to hear. The goals that they are setting are excellent but the implementation of those goals is going to be a long and difficult process. There is a risk of setting unrealistic targets, such as a timeframe on the opening of EU accession negotiations, such as a point at which Ukraine expects to get to the level of the most advanced European countries, when at the moment it is a long way behind the least advanced in Western Europe. If you set a target, and then miss it, that can lead to a reaction of disillusion and disappointment. In a sense, Ukraine is now in a situation where it needs blood, sweat, toil and tears. There is a lot of work to be done to sort out the problems of the country.

I do have concerns, having seen Ukraine first-hand in 1991, 92, 93, when I was in charge of that part of the Foreign Office. I was worried by the euphoria that one found then, when Ukraine became an independent country. It was thought that it would be a rather easy process to lift Ukraine and its standard of living and its economy

up to the standard of Western Europe and integrate Ukraine as one of the great nations of Europe. That was the talk that we heard then and we saw what happened: the right steps were not taken, we didn't get a strong legal foundation, or a market economy. It became a very jumbled sort of process and went backwards rather than forwards.

It is great news that they are now trying to go forwards again, but you need to have a great deal of hard-headed realism about what is achievable. You must keep your idealism – must keep the drive and mustn't be defeatist – but must also realise that there are great problems to be overcome.

One example that sticks in the mind is that Ukraine has, in GDP terms, the largest pension burden of any country: 16% of GDP. This is not affordable yet, if you cut pensions, you lose popular support. That is just one of the issues that have to be tackled.

Casual observers of the region, who may be depressed by the recent turn of events in Russia and seeing the euphoria in Ukraine may conclude that Russia would benefit from an Orange-style revolution. Is there any merit in this reaction?

I instinctively support evolution rather than revolution. What is important for

both Ukraine and Russia, and for their friends and partners (I certainly count myself and the people I work with in this category) is that they should succeed now in becoming effective modern market economies and utilising the undoubted potential. If that is the direction in which they now move, they will get huge support in Western Europe and more widely.

The situation in Russia is not analogous to Ukraine. In some respects, Russia in the '90s moved well beyond the situation that Ukraine has got to. Ukraine is going to have to go through some of the stages that Russia has already been through – for example in terms of legislative acts.

The circumstances that led to the events in December are unique to Ukraine and I don't think that they apply to Russia. We are talking about a different process. There is potential in Russia to get back to a path of modernisation and economic reform, and also to move more purposefully toward closer integration with the world's economic system. It doesn't require a revolution, it requires a reinvigoration of many of the policies and approaches that were being followed a year or two ago. The people are there; the policies are there; perhaps, what is needed is more consistent implementation. 