

Russia inside BRICS: Institutional Failure as the Reason of Global Competitiveness Decline

The paper examines the institutional causes of low global competitiveness of the Russian economy in comparison with the other BRICS' countries. They are extremely weak property rights, lack of rule of law, total systemic corruption.

Key words: global competitiveness, institutions, governess indicators, rule of law, corruption.

Global Competitiveness: Why Russia is the Loser?

The World Economic Forum (WEF) has released a series of reports (beginning from 2005), which analyzed and compared in many parameters global competitiveness of the countries. WEF define “*competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country*” [Global competitiveness report (GCR), 2013-14]. The quality of institutions has a strong bearing on competitiveness and growth. “The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth” [Ibid.]

In the last Report institutional environment is investigated by assessing 21 parameters. If the aggregated index of competitiveness of Russia put it on the 64th place in the world (out of 148 countries), then the state of its institutions occupied the 121st position [Ibid.]². In the Report 2008-09, Russia was ahead of Brazil and almost on a par with India on the aggregated index, but starting with the 2009-10 report it was steadily the last among the BRICS (Table. 1).

If in the Report 2008-9 Russia's lagging behind the average score for the group with amounts to only 0.07, the report of 2012-13 it reaches a value of 0.16 points. Deviation from the average rank for the group in the Report 2008-09 was 3, and in the Report 2013-14 – 12. This is somewhat better than in the 2012-13 Report, where the figures were 0.22 and 18, respectively, but it does not change the place of Russia as the outsider.

Based on Fig. 1 it is easy to guess that much of this lag in the competitiveness of Russian economy takes place due to its institutional failure. Despite some improvement in the institutional environment in the Report 2013-14, compared to the Report 2012-13, the situation has not fundamentally changed³. Russia's huge

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² Global Competitiveness Report 2013-14 covers the second half of 2011 and the first half-year 2012.

³ Russia has improved estimates of the 16 indicators of the institutional environment out of 21, on the 5 indicators the situation did not change. The biggest positive changes (increase of 0.3 points or more) refer to the indicators such as intellectual property rights, burden of government regulation, ethical behavior of firms, efficiency of corporate boards, protection of minority shareholders' interest. But it is still too early to interpret this positive shift as the start of the long-term tendency.

institutional lag from other BRICS countries is well demonstrated by percentile rank (Table 2).

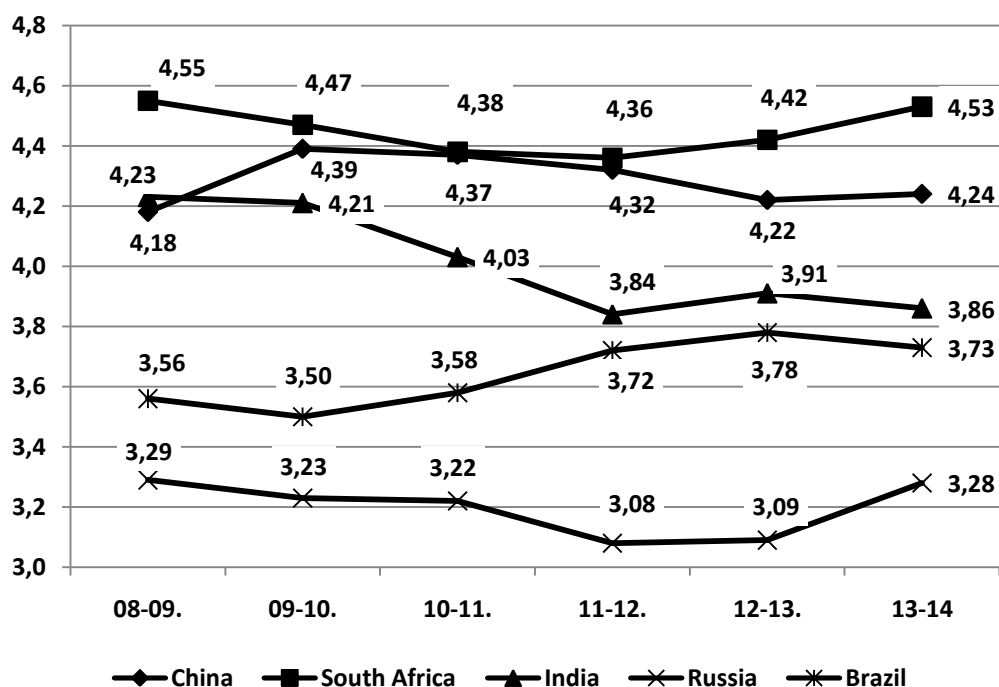
Table 1. The Global Competitiveness
(the highest score is 7,0; the lowest – 1,0)

	08-09		09-10		10-11		11-12		12-13		13-14	
	Rank (134)*	Score	Ранг (133)	Score	Rank (139)	Score	Rank (142)	Score	Rank (144)	Score	Rank (148)	Score
China	30	4,70	29	4,74	27	4,84	26	4,90	29	4,83	29	4,84
SAR	45	4,41	45	4,34	54	4,32	50	4,34	52	4,37	53	4,37
Braz.	64	4,13	56	4,23	58	4,28	53	4,32	48	4,40	56	4,33
India	50	4,33	49	4,30	51	4,33	56	4,30	59	4,32	60	4,28
RF	51	4,31	63	4,15	63	4,24	66	4,21	67	4,20	64	4,25
Mean	48	4,38	48	4,35	51	4,40	50	4,41	51	4,42	52	4,41

* The number of the countries is in the brackets.

Sources: Global Competitiveness Report 2008-09; 2009-10; 2010-11; 2011-12; 2012-13; 2013-14. URL: <http://www.weforum.org/issues/global-competitiveness>.

Figure 1. Institutions
(the highest score is 7,0; the lowest – 1,0)



Source: Global Competitiveness Report 2008-09; 2009-10; 2010-11; 2011-12; 2012-13. URL: <http://www.weforum.org/issues/global-competitiveness>.

Using the data of the latest Report on global competitiveness [GCR 2013-14] we can see that 13 of the 21 parameters characterizing the institutional environment in South Africa is in the top 50 places (from 1 to 50, inclusive), the following 50 places (from 51 to 100, inclusive) occupied by 4 parameters and, respectively, 4 parameters are located in the third half-hundred (space between 101 and

below). A similar distribution of places for other countries is as follows: China (8, 13, 0), India (3, 14, 4), Brazil (4, 9, 8) and Russia (0, 5, 16).

Table 2. Institutions
(percentile rank)

	08-09	09-10	10-11	11-12	12-13	13-14
Brazil	32	30	33	46	45	46
China	58	64	65	66	65	68
India	60	59	58	51	51	51
Russia	18	14	15	10	8	18
South Africa	66	66	66	68	70	72

Sources: Global Competitiveness Report 2008-09; 2009-10; 2010-11; 2011-12; 2012-13. URL: <http://www.weforum.org/issues/global-competitiveness>; Authors' calculations.

Brazil is lagging behind Russia on 7 parameters of the institutional environment. These include: the diversion of public funds (133 vs. 113 place of Russia), public trust in politicians (136 vs. 84), wastefulness of government spending (132 vs. 99), the burden of government regulation (147 vs. 120), the transparency of public policy (112 vs. 101), business costs of crime and violence (124 vs. 80) and organized crime (126 vs 111).

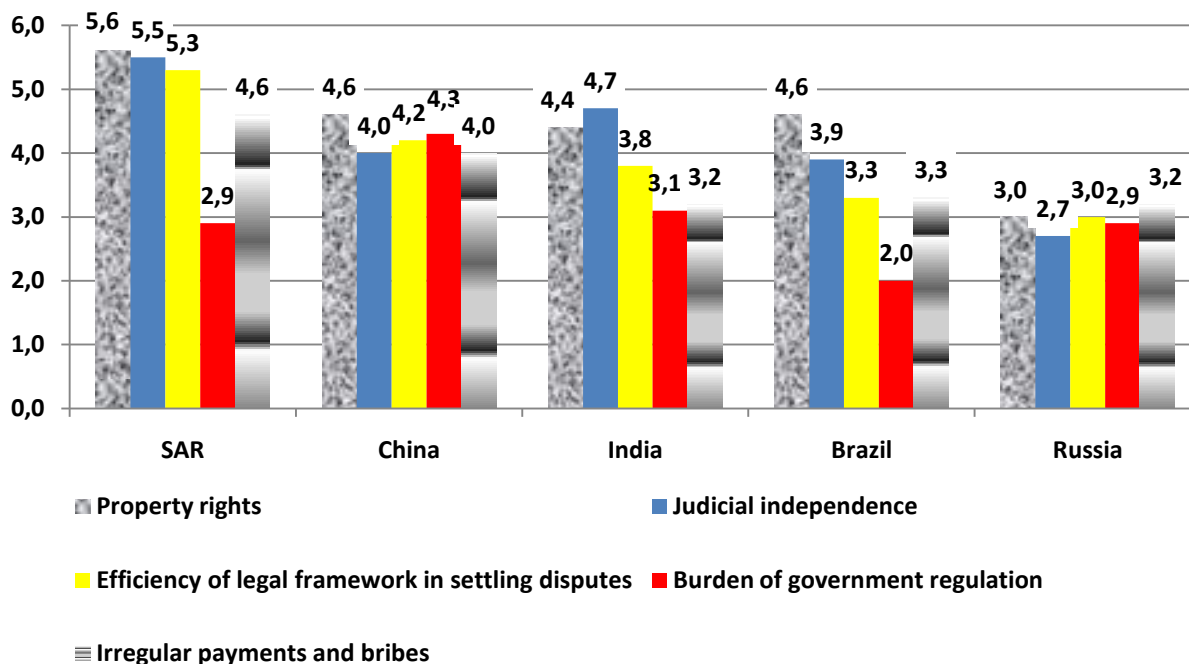
South Africa loses to Russia on 4 criteria: business costs of crime and violence (141), organized crime (113), favoritism in decisions of government officials (120 vs. 111) and public trust in politicians (98).

India gives Russia the three characteristics of the institutional environment: public trust in politicians (115), illegal payments and bribes (110 vs. 109), and support of business by terrorism (113 vs. 112). China is ahead of Russia on all aspects of the institutional environment, without exceptions!

Figure 2 shows the status of the five most important, in our view, components of the institutional environment in BRICS. Russia, as can be seen, is inferior to the institutional quality of the rest of the countries of this cohort. There are only two exceptions: illegal bribes and payments in India (where there is equality) and the burden of government regulation in Brazil (where Russia is ahead).

The reports on the global competitiveness distinguish the most problematic for doing business areas. Respondents mark and rank 5 of those from the proposed list. The result is an ordered list of obstacles for business. No wonder that the first place in Russian was taken by corruption. And it leads by a wide margin (19.1 % of the respondents put it at the first place, when the following after corruption the tax rates got 13.0 %). The inefficiency of the state bureaucracy took 4th place (9.8 %). In the equally corrupt country of the BRICS group (according to the Report of 2013-14) – India, the first place belongs to inadequate supply of infrastructure, the second – to inefficient government bureaucracy, and corruption is only the third. In Brazil corruption there took the 6th place. In China corruption rounded out the top three issues, in South Africa it is number 4 [GCR 2013-14].

Figure 2. Basic Institutions in BRICS
(the highest score is 7,0; the lowest – 1,0)



Источник: Global Competitiveness Report 2013-14. URL: <http://www.weforum.org/issues/global-competitiveness>.

In the previous report, corruption in Russia has also been put on the first place (20.5%), on the second place was the inefficiency of the state bureaucracy (11,9%) [GCR 2012-13]. The Report 2011-12 observed the same pattern: 22.8% – corruption, inefficiency of the state bureaucracy – 13.3% [GCR 2011-12]. Note that the corruption was in the lead as the main problematic factors for business and all previous reports, starting with the first evaluation of these factors in the Report 2008-09 [GCR 2008-9; GCR 2009-10; GCR 2010-11; GCR 2010-11].

Bad Governness

If we turn to another source (database Worldwide Governness Indicators, World Bank), then comparing Russia with the other BRIC countries, we can easily see that the most vulnerable of its positions are the rule of law, corruption and government effectiveness (Table 3). In the quality of regulation Russia is on the penultimate place (ahead of India).

From the data in Table 3 it follows that special attention should be paid to corruption in Russia. In Worldwide Governness Indicators project corruption is defined as “extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests” [Kaufmann, Kraay, Mastruzzi, 2010, p.4].

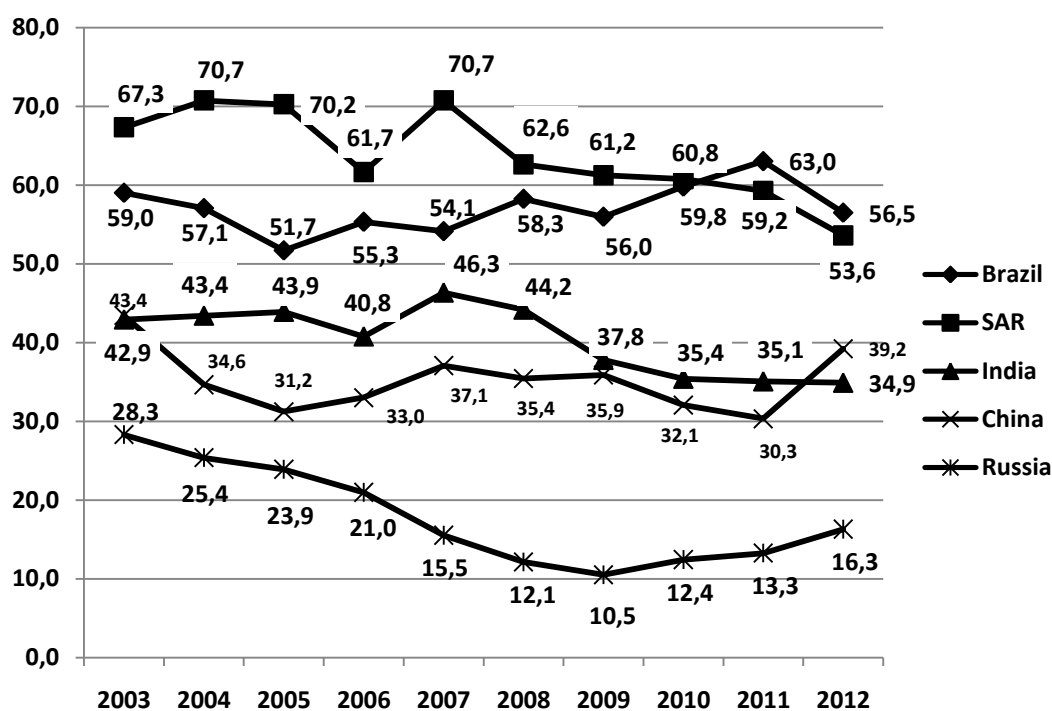
Table 3. Selected Governness Indicators, 2012
(percentile rank)

	Rule of Law	Corruption	Government Effectiveness	Regulatory Quality
SAR	57,8	53,6	63,6	63,2
Brazil	51,7	56,5	50,2	54,5
India	52,6	34,9	47,4	34
China	38,9	39,2	56	43,5
Russia	23,7	16,3	40,7	38,8

Source: Worldwide Governance Indicators. World Bank Data//URL: <http://databank.worldbank.org/data/views/reports/tableview.aspx>

Fig. 3 explains a lot in the state of the global competitiveness of Russia. First, from 2003 to 2009, corruption is steadily intensified until it was fixed at a very high level. A slight rebound from the bottom in 2010-2012 does not fundamentally change anything in the current picture.

Figure 3. Corruption in BRICS
(percentile rank)



Source: Worldwide Governance Indicators. World Bank Data//URL: <http://databank.worldbank.org/data/views/reports/tableview.aspx>

The fact that the huge reserves for increasing competitiveness of the Russian economy lie in the radical improvement of institutional environment confirms by the recent study in which it was shown that Russia could move 69 places up in the ranking "Doing Business" compiled by the World Bank (to 43 from 112) if it were not for corruption [Belyaeva, Nikolaenko, 2013, pp. 99-100].

In the special study on the Russian competitiveness WEF experts emphasized: “Nepotism and state capture of the government administration and the judiciary impede efficiency of public institutions, which are key to the functioning of the economy” [The Russia Competitiveness Report 2011].

Nevertheless, “In Putin’s Russia, power network ... effectively undermining the key principles of market competition – equality of economic subjects and security of property rights – and the key principles of the rule of law – equality before the law” [Ledeneva, 2013, p. 242].

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