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Russia's New Horizons
REGIONAL RESILIENCE AND COMPETITIVENESS IN AN ERA OF CHANGE
Panel

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09:30–10:45, Pavilion 3, Amphitheatre

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Moderator:

Roman Gerasimov, Presenter, Channel 5

Panellists:

Oleg Goshchansky, Chairman, Managing Partner, KPMG in Russia and the CIS

Victor Kalashnikov, Minister of Economic Development and Foreign Relations of Khabarovsk Krai

Alexander Khodachek, President of Branch in Saint-Petersburg, National Research University Higher School of Economics

Vladimir Knyagin, Director, North-West Strategic Research Center Foundation

Svetlana Kogan, Deputy Chair, Committee for Investment, St. Petersburg Government

Front row participant:

Alexander Smekalin, Minister of Strategic Development and Innovation of the Ulyanovsk Region

R. Gerasimov:

Good morning, dear friends. It is my pleasure to welcome all our audience members. Please allow me to introduce the panellists for our discussion.

Let us do it this way: we will start with an introduction from St. Petersburg, as the host of this discussion. Please go ahead, Svetlana Kogan, Deputy Chair of the St. Petersburg Committee for Investment.

S. Kogan:

Hello, honoured guests. I would like to welcome you on behalf of Irina Babyuk, Chair of the St. Petersburg Committee for Investment. We are glad that you were able to find the time on a Saturday morning to come to this session, which concerns a very important topic in the development of St. Petersburg, the Russian regions, and Russia as a whole.

Just three or four years ago, it seemed as though there were no serious threats to the sustainable development of the Russian regions or the countries of the European Union. After an extended process of economic transformation and the consequences of the international financial crisis, a majority of countries in the Northern Europe macro-region as well as Russia's Northwest Region have completed the formation of anti-crisis measures for a market economy. The pace of development since the crisis leads us to believe that the most difficult period, for the countries and regions of the European Union and the regions of the Russian Federation, is already behind us.

Under conditions of globalization, when cities and territories compete to attract foreign investment – both public and private – it is extremely important to have a healthy investment climate. That is the basis for the decisions investors make as to whether to enter one territory or another, in the major cities. These processes are continuing in tandem with stiff territorial competition for the investment resources necessary to implement each region's socio-economic development strategies. There is no reason to believe that this competition will abate in the future.

One part of this struggle is the distribution of resources from the federal budget. Since 2008, the volume of financing for federal programmes has been consistently on the wane. Financing from the federal and regional budgets does not allow for the complete implementation of investment projects, nor does it completely support the functioning of existing enterprises. Given the incompleteness of the transformations that have taken place in the market, the cautious approach of foreign investors with regard to our country, and a crisis of faith among the public in traditional forms of savings, the state's role in regulating these processes must be strengthened significantly.

In the field of attracting investment, developing projects that satisfy the interests of potential investors is coming to be an important step. Considering the primary importance of mobilizing non-government investment resources, one important element in forming an investment strategy is cooperation with the business community and self-regulating organizations.

The Committee for Investment is working actively in the following areas: increasing St. Petersburg's attractiveness to investors, stimulating investment activity among all groups of investors and investment targets, intensifying socio-economic development by increasing the volume of capital currently operative within the city's economy, and creating new jobs for highly qualified individuals. Creating a favourable investment climate in St. Petersburg is one of the main tasks assigned to us by the St. Petersburg City Administration. The level of social, political, and economic stability all influence the formation of a favourable investment climate.

The efforts of government agencies from 2013–2020 (that is the time period during which the investment strategy will be in operation) must be concentrated not only on completing the pressing, on-going tasks of supporting and developing targets in the social sphere, establishing active investment, and attracting capital for investment in the real sector of the economy, but also on creating the right long-term conditions for the active renewal and development of the city's manufacturing potential.

I hope that today's discussion will be of practical use to everyone gathered here, and will help the regions to determine their future priorities and actions.

Thank you very much.

R. Gerasimov:

Thank you, Svetlana.

We will now move into the discussion format, and I will give a brief introduction to our participants.

The title of our session, 'Regional Resilience and Competitiveness in an Era of Change,' is an academic one, but we need to grasp the most important thing: what the regions can really do, and how they need to change what they do. Everyone has probably noticed that regional executive agencies are represented very actively here at the Forum, and an enormous number of people come here to try to get a sense of what to do, how to get stronger, how to be more competitive, and what can be achieved. An important aspect of our discussion is, of course, the relationship between the federal centre and the regions. We will try to discuss this whole set of issues. I am very glad to see several regions represented here, because I am counting on hearing about concrete, practical examples. I will ask all our discussion participants to be as concise as possible. Brevity is the soul of wit, as they say, and that still rings true today.

First of all I would like to introduce the Deputy Chairman of the Government of the Khabarovsk Territory, and Minister of Economic Development, Viktor Kalashnikov. Please welcome him. Continuing on in order: Alexander Khodachek, President of the St. Petersburg branch of the Higher School of Economics. Svetlana Kogan, St. Petersburg Committee for Investment. Vladimir Knyagin, Director of the Northwest Center for Strategic Research. Oleg Goshchansky, Chairman and Senior Partner of KPMG in Russia and the CIS.

After the speech by our representative from the St. Petersburg Government, I ask you to take the floor, Mr. Knyagin. You have been telling the regions for many years now what they ought to do, and you lay it all out scientifically and precisely, in heavy tomes. But do you not get the impression that it has only recently become clear that they cannot make it on their own?

V. Knyagin:

Thank you, Roman. Well, actually, it was on regional economics that Paul Krugman wrote *The Spatial Economy*, for which he was awarded the Nobel Prize in 1986. Academics have come up with a mathematical formula that shows that profits grow as a result of spatial concentration; the concentration of economic activity increases, that focal point grows stronger, and it attracts new resources. The physicists laughed at the economists back then. An agglomeration subsisting on itself as fuel did not fit in with their fundamental laws.

We must understand that by 2030, even if we take control of demographic processes, about one third of the active population of the country will be concentrated in two agglomerations, first and foremost in Moscow. The Moscow agglomeration has already spilled out over the borders of the Moscow Region and is gobbling up the capitals of the adjacent federal subjects. The second agglomeration is that of St. Petersburg. St. Petersburg does not cover the whole territory of the Leningrad Region, but it actively influences our neighbours in Estonia and in the Finnish regions adjacent to the border, and in that sense, the St. Petersburg agglomeration is fairly big. Most likely, investment related to the cutting-edge high-tech sectors will be concentrated in these regions.

For the other regions, there are problems. Firstly, throughout the territory of our country, there are not so many points of concentration. Secondly, when we count up the projects that have been implemented, the years, and the time-frames, we realize that there are also not so many projects that can be accommodated in the more remote territories of our country. For Russia, the question arises as to how to manage this process. You said, Roman, that a great number of regions are represented at this Forum, but I noticed that at least two questions have dropped off the agenda. Least attention of all is being paid to how industrial policy is formed, and how regional development should be organized.

Obviously, using macro-economic tools to bring about the desired concentration of resources in the country's remote territories is not possible. A specially organized

effort is required. This would be an effort that combines the skills of the people and the relationships between people, an effort that will help attract specific projects to specific territories. The number one task for the investment blocs in all regional areas is how to influence that process. The second job facing us is how to structure our agglomerations.

We are cooperating with our counterparts in China, and we can see how they are applying their utmost efforts to unburden the coast, which is already bursting with money and projects, by directing new projects into more far-reaching territory. To do so, they are constructing special high-speed thoroughfares, expanding the zone of agglomerating influence over what are known as the hinterlands with respect to the big centres, and establishing isochrons, which are lines denoting access to a certain territory according to time – they are carving out one-hour and two-hour isochrons – and they are lining up their general infrastructure and structuring the labour market. A large number of concrete and very complex structuring projects are being carried out.

For us, the question arises as to how to help the various subjects reach agreements – for example, an agreement between the big city of St. Petersburg and the Leningrad Region. How do we bring the centre of a city and the adjacent, contiguous municipality around it to agreement? I would like to tell you a little story – we can speak freely here, am I right?

R. Gerasimov:

We are being recorded, but we are free to say what we want.

V. Knyaginina:

Irina Starodubrovskaya, who represents the Institute of Transition Economics, now known as the Gaidar Institute for Economic Policy, told me a story I liked very much. They were trying to launch the construction of a complex agglomeration in Chelyabinsk and spent a great deal of time demonstrating the experience of the huge city of Paris, as well as other cities, showing how it would be possible to

organize this. It ended with officials from the Chelyabinsk city administration raising their hands and saying that they could not handle the job, and that they could not reach an agreement with the surrounding municipalities. To the question of why, they had a very simple answer: "How can we reach an agreement with them when they are not subordinate to us?" For us, this is an extremely complex management situation.

St. Petersburg and the Leningrad Region are trying to untangle this puzzle within the framework of a commission coordinating the activities of the two federal subjects. In the Moscow Region, the situation is a bit more complex. MKAD, the Moscow Ring Road, no longer actually divides anything from anything else. It just acts as yet another transport barrier. In order for these two regions to grow together, efforts still need to be applied even here. In other cases in Russia, we have decentralized markets, and there are no market centres, or not enough of them. These markets are weak, and they ought to be denser, with centres that are more clearly defined. We have unstructured markets, and within those markets we have established neither transport plans nor manufacturing cooperation - nor even labour markets.

In conclusion, whilst realizing that I ought not to tie the whole discussion down to certain theses, I would like to offer some examples of expert assessments. Relatively speaking, these numbers can be trusted, as they are expert assessments, after all. They are based on field studies, of course, but we need to include some allowance for the fact that these numbers are not entirely accurate. Daily commuters in Moscow and the Moscow agglomeration number 2 million people. The traffic flows primarily into Moscow, but a good number of people now commute out of Moscow, too. In St. Petersburg, the number is about 250,000 people, of whom about 200,000 travel into St. Petersburg and 50,000 travel into the region. We realize that this gives rise to an enormous number of questions: on the one hand, how do we facilitate vast mobility and flexibility in the labour market, and facilitate its synchronization; and on the other hand, this must not give rise to additional problems. Sixty per cent of the traffic problems on the country's federal

highways are concentrated in Moscow and the Moscow Region. Having examined this situation, we can see that: a) There is a process in place; b) It is being managed poorly; and c) It genuinely demands some additional momentum.

Thank you.

R. Gerasimov:

Mr. Knyagin, you have really stopped the show.

I ought to point out that we have another two regions represented here in the front row. I am very pleased that we have with us Alexander Smekalin, Minister of Strategic Development and Innovation of the Ulyanovsk Region, and Kari Liuhto, Director of the Pan-European Institute at the Turku School of Economics in the city of Turku, Finland.

Our entire discourse is built around regional interaction and how the regions affect one another. There is a clear trend towards enlargement, and the building of new agglomerations. I want to throw this question right back to the regions. Mr. Kalashnikov, you report to the federal centre and are building up your activities in the Khabarovsk Territory. How interested are you in having strong neighbours? To what extent are you competitors or partners?

V. Kalashnikov:

Good morning, esteemed colleagues.

That is a good question, Roman, but I do not think it is one that has only just surfaced, and equally it is one that will be in play for a very long time to come. There are several reasons for that. First among them is the size of the economy. To get a sense of its size, the gross regional product of Khabarovsk Territory totals USD 14.5 billion. That is not much for such a large territory, with a population of 1,342,000. But these are not just unallocated billions of dollars; they are clearly structured in terms of need.

Concerning development and the region's economic growth, all that we need is big industrial projects, and in order for that to happen, we need to have demand. That

kind of demand cannot be found within the region, and that is the first real, key explanation and reason for us to cooperate and act in concert with the neighbouring regions.

The second important aspect is history. I still remember very well how the Soviet Union's Gosplan worked: there was a unified system for the domestic economy, and the entire Far East region, including Khabarovsk Territory, had a narrow specialization, with its own niche. Khabarovsk Territory plays an important role in the processing industry, although we usually associate the Far East with the extraction of natural resources. We also have natural resources, yet we still carry out processing work. The petroleum processing plants produce 11 million metric tonnes of petroleum products, and our internal demand is only 1 million tonnes, with the rest destined for other regions. This is the right way to pose the problem – integration, cooperation.

I want to mention one problematic issue right away. Each of us is responsible for the portion of work allotted to us, and we are cooperating closely, in a spirit of strong friendship, with our neighbouring regions. When it comes down to concrete projects, and to actual investment, call it what you will, but we are trying to work for our own territory, to attract resources to our own territory. In doing so, we do not always manage to reach a consensus or a solution that is the best overall solution for the macro-region as a whole, or for the country as a whole.

R. Gerasimov:

Mr. Kalashnikov, I understand very well that you do indeed compete; it can be no other way. But have there been times when you have realized that it would be simpler to do something together with your neighbours? Has there ever been even one occasion when you have shared an investor?

V. Kalashnikov:

Here is one example. It was a very large project – an integration project, in fact. It was situated on a very compact territory, on the coast of the Strait of Tartary, in

Vanino, in Sovetskaya Gavana. They are building large sea terminals there, targeting exports, but they will depend on cargo that originates outside of Khabarovsk Territory. That cargo comes from our neighbours: the Amur Region, the Jewish Autonomous Region, the Sakha Republic (Yakutia), the Zabaykalsky Territory, and even the Kuznetsk Basin. I think we have a real mutual understanding of this project. There is a serious problem: infrastructure limitations related to the railroad, the Baikal Amur Mainline. All the federal subjects that are interested in carrying out this comprehensive project are working in unison. Yesterday we heard that there had been definite progress in that area, because we acted in consensus.

R. Gerasimov:

Thank you.

Yes, Siberia was indeed given some new hope yesterday.

Mr. Smekalin, please join in. Tell us briefly how things stand with your neighbours: are they competitors or partners?

A. Smekalin:

I completely agree with my colleague from Khabarovsk. Without question, there are different levels of integration. When we talk about specific projects, about locating specific enterprises, we are of course competitors. It cannot be any other way: each of us wants their own economy to develop, and that is fair. The problem lies elsewhere. To maximize synergy, we have to come out not just for unitary projects, but for comprehensive project development, and without partnership and cooperation that is really difficult.

Here are a few examples, in particular from our good friends and neighbours in the Samara Region. Their economy is similar to ours in many respects, with a fairly heavy structure, and with a big share going to machine building. Aviation and automobile manufacturing are developing in both regions. But we realize that the centre of automobile manufacturing is in Samara, and it is no secret that this city is the main consumer. When I talk to my colleagues, we understand the wisdom of

locating major component assembly in Togliatti, right next door to the consumer. But second- and third-level manufacturers are located in our region, because that makes better sense for them, since Samara does not have the time for that.

In aviation, the situation is the complete opposite. The main assembly operations, and the major components, are currently concentrated where we are. Accessory production can be located in Samara.

By understanding this, and understanding this active exchange of goods, we came up with a joint initiative to build a new federal highway. We are now actively promoting that idea. This is the so-called Volga Transit, joining Samara and Ulyanovsk, and in the future it will continue on to the Urals and Moscow.

Another good example, if you will permit me, is the FIFA World Cup in 2018. Mordovia, another good neighbour of ours, is a centre where several football matches are going to be held and where the teams will be staying. But the transportation and social infrastructure of that region cannot accommodate a large number of fans and teams. Ulyanovsk, though, does have that ability. We signed an agreement to the effect that the main transport corridor will pass through Ulyanovsk, that fans will be located there, and that we will build the infrastructure for that. Mordovia's job will be to take charge of localization for the teams.

That is the kind of synergetic project that can take place, and the bigger it becomes, the greater the need for localization will be.

R. Gerasimov:

Thank you.

One thing is clear: together, it will be easier for you to grapple with infrastructure, for example, and that is the foundation of everything.

Mr. Liuhto, a few words from you about examples of cooperation with Finland. In spite of everything, the borders here, at least for the Northwest Region, have been erased. Our guests from other cities may not know it, but a good portion of people in the Northwest Region, in an area 100–150 km from the border, sometimes drive into Finland for their groceries. Look at how much money Lappeenranta, for example,

receives from St. Petersburg and the Leningrad Region. I think that your lives have changed over the past five years. What is your sense on the economic front? Does Russia now belong to you a bit?

K. Liuhto:

Good morning, ladies and gentlemen. Most Finns do not speak Russian as fluently as Ville Haapasalo, and I am one of them. I will continue in English, if I may.

In fact, I come from the city of Turku, and we have had already sixty years of successful cooperation with the city of St. Petersburg. I think we are now moving to hopefully new different levels. I would make three proposals, because I think in the programme there were some concrete things mentioned. One is for the city of St. Petersburg, because I feel that we are partners. What would you think about of having joint investment promoted in third markets? You have the St. Petersburg Investment Promotion Agency. In Finland, we have the Investment in Finland Agency, and then we have regional development companies in cities. Would it be wise to market our regions together? Together, we would be a much bigger unit: a big Russian market, Finland is quite known for innovations, and so on.

To be present in the USA, Asia, and many places, my second point is synchronization. As you know, the European Union has an overseas regional strategy, and as far as I know, Northwest Russia also has Strategy 2020. Would there be any need to synchronize these two things to the extent that we could maximize these benefits in the future?

The third point: I was born in Lappeenranta, by the way. I remember 46 years ago, Russians were not so known there. Now, there are tens or hundreds of thousands of Russians bringing a lot of money there. My concrete issue is: have you considered that visa freedom will come one day? Are we ready for this? I mean on both sides – borders, police, and roads – because the road projects will take a long time to accomplish. Today we have 12 million cross-border crossings between Russia and Finland. Can you imagine what visa freedom would mean for this

complete transportation? These are my so-called three concrete points, if I may, Chairman.

R. Gerasimov:

Thank you.

I understand that Finland was the first to ask that the visa regime be removed. If that happens, the entire Leningrad Region will move there.

Mr. Khodachek, I will move on with a question for you. Our neighbouring regions, St. Petersburg and the Leningrad Region, are unique in that one is located inside the other. Lately the battle over staffing resources, investment, and infrastructure has been gradually evolving into a partnership. Why do you think that is the case? And what are the future prospects?

A. Khodachek:

Without a doubt, a partnership exists. We have had the Technical Assistance to the Commonwealth of Independent States (TACIS) project for economic integration and synergy in the two regions in place since 1999. Certain foundations for that partnership were laid when the unified General Plan for Leningrad and the Leningrad Region, which came to an end in 2005, was still in place. Today, the heads of our regions have sat down at the negotiating table, and as a result we have the Coordination Board, and we have set up a Directorate on the Development of the Transport System of St. Petersburg and the Leningrad Region.

Problems remain, because they are systemic in nature, and these problems cannot be solved even in the course of three to five years. First and foremost, they are connected to the determination of administrative boundaries between the two federal subjects. If we look at the map of investment projects in the Leningrad Region, they are situated like a necklace around the St. Petersburg administrative boundary. Mr. Knyagin has already spoken about commuters, but we should also discuss the balance of labour resources, and the balance of product imports and exports throughout the territory of the Leningrad Region, with respect to the

logistical centre in St. Petersburg. Most importantly, we must discuss the foreign economic trade that will be allocated to St. Petersburg and the Leningrad Region for many years to come, at least until the year 2050.

Together with the states bordering us, Estonia and Finland, we need to work on the following areas: developing the ninth pan-European corridor, developing a system of harbour complexes in the Gulf of Finland, creating a simplified border crossing system, and creating new crossing points for automobiles. Simplifying cross-over of labour, finished goods, and raw materials is the biggest job that needs to be done by the leaders and administrations of the two regions.

Another important item is related to the drafting of the new St. Petersburg General Plan, and the making of adjustments to the territorial planning scheme for the Leningrad Region. Today, a whole series of questions connected to the transportation engineering infrastructure has come into conflict with the situation that has developed, concerning the Kudrovo District, Toskovo-Burga District, and the southern part of the border between St. Petersburg and the Leningrad Region. The most important task today, in all the regions, is the centre-periphery issue. We have a tendency to want to get bigger, and we very often forget about the socio-economic problems in the outlying territories. On the one hand, we face the task of developing and strengthening growth points, and on the other hand, we must not forget that there are people living (I almost said "people existing") in those territories. That is a very big problem. With a deficit in budgetary resources, as we create the right conditions for business development and incoming investment, we must think about how to develop the outlying territories.

As an example, I could mention a very interesting solution in Estonia: Ida-Viru County, where for foreign companies, mostly Russian ones, they offer unique terms in relation to the engineering readiness of the territories to receive business starting from nothing, and convenient conditions in terms of taxes. We can see a similar example in Finland, as we heard in the excellent speech by the representative of Turku. A whole set of logistics zones and techno-parks have been built there, and they have solved practically all the problems connected with the arrival of investors.

Together with the Leningrad Region, we need to arm ourselves with that experience and, as far as possible, share those successful solutions so that we do not make the mistakes that other regions have already made.

R. Gerasimov:

Thank you.

Mr. Goshchansky, from KPMG, one of the big four companies – that is exactly the type of prize that the regions often yearn for. KPMG operates in many of Russia's regions. Are people ready, in your view, to work together, when it comes to the big projects in which you are participating? From a business perspective

O. Goshchansky:

Thank you very much.

On the whole I would like to say this. Right now, the battle for investment is currently a hot topic all over the world. The issue of attracting foreign investment is important for any economy, for any state. This also pertains at the level of regional politics.

Along with the Russian Union of Industrialists and Entrepreneurs, we recently finished a project analysing the business investment climate in various regions of the Russian Federation. We identified some very serious differences in the investment climate, which are crystallized and expressed in the amount of investment taking place. Pursuant to that study, we divided the regions into four types. The most successful are the regions of tomorrow, the ones we are always hearing about – Kaluga, for example. These are real national champions, able to win battles for investment. I will reiterate that attracting investment is kind of like a competitive sport today – you have to run, and you have to run faster than your rivals. So, our regions of tomorrow, the ones that have genuinely attracted enormous amounts of investment over recent years – over USD 100 million, at least – those are the regions that are fully capable of competing with regions outside the borders of the Russian Federation.

The second type are the regions of today that have a future. Regions which, according to the statistics, have attracted investment ranging from USD 50–100 million over the past two years. We can see that these regions have, first of all, certain types of infrastructure and institutions. Secondly – and this is the most important thing, along with form, institutions, and infrastructure – they have substance. That is expressed by the political will on the part of the governors; in the selection of good cadres, and professionals; in the proper motivation of the professionals working in that field; and in the attraction of foreign investors, and maintaining contact with them.

It is very important to say that the most successful are those regions where the people who are on the front line of work with investors realize that foreign investors are their clients. You often encounter the opinion that a foreign investor is a cash cow, or a petitioner who has come in and is going to ask for something. That is not the right way to see things. I will repeat once again: an investor is a client, and it is in the areas where people realize that that we see success.

The third type of region is what we called the regions of today, but with less potential. The figures for investment data in these places ranged from USD 10–50 million over the past two years. Here we can see that the desire is there, the political will is there on the part of the governor, but they are handicapped by a lack of institutions, and a problematic level of bureaucracy; and the struggle against bureaucracy, as they seek to minimize bureaucratic obstacles, is handicapping them.

Unfortunately, there is also a fourth type: regions of yesterday, which do not have the infrastructure-related prerequisites to convince foreign investors to move in. They lack the desire, the understanding, the teamwork, and the inclination. The cut-off point for investment volume in the regions of yesterday was below USD 10 million. The difference between the regions is enormous, and that is apparent from our research.

To answer your question about whether or not there is competition: here, as in all areas of life, we need a healthy balance. Yes, there is still competition – competition

provides the impetus, whether we like it or not, but here we need a healthy dose of pragmatism. We often see that investors need to be brought in not just to one region, but to entire hubs. Look at agriculture. The agricultural land is in one region, but what is important is the logistical chain. When an investor comes into a region, he does not want to just plough and plant; he wants to take the land and sell it. Pan-regional advancement, in terms of infrastructure, is very important and is greatly valued by investors, most of all foreign ones. Here we need some healthy pragmatism. The regions must take an interest in forming these attractive clusters, these hubs, and they must act as a single, consolidated front in order to attract investors.

A final point on foreign investment. We analysed foreign investors' perceptions of the Russian economy. There is a big difference in perception between those who are already in the Russian Federation, who have invested here, who know Russia from the inside, with all its pluses, minuses, and peculiarities, and those who are still thinking about and planning to invest in Russia, but know little about the situation here, from what they have picked up in the Western press, from the television, and so on. The perception of those investors who are already here is much more positive than those who only know about Russia from the press and foreign news channels. Investors who have not yet come here cannot distinguish between Lipetsk, Ulyanovsk, Kaluga, and so on. Yes, they have an idea about Moscow, and by the way, they often extrapolate everything they see in Moscow and St. Petersburg to the whole of Russia, along with all the pluses and minuses. People do not know Russia, so from the point of view of marketing to, attracting, and drawing in, if you will, international investors, all the regions need to understand that they ought to be running a joint campaign to publicize Russia.

A symbiosis between healthy competition and pragmatism, consolidating the efforts of the various regions, and our neighbours first and foremost – that is probably the healthy balance that the governors and their teams should be extolling.

Thank you.

R. Gerasimov:

Thank you. It is important that you listed several factors of success. I have a brief clarification to make, Mr. Goshchansky: We have a strong top-down system of power, and it is clear that the regions are subject to the fate Moscow has in store for them. To what extent, in your view, does success depend on what happens in the region, and to what extent does it depend on what the federal centre decides?

O. Goshchansky:

I think the emphasis is now shifting to the regions. Having analysed the discussion closely for two days here at SPIEF, I heard the emphasis placed on the regions over and over again. Yes, Moscow is the capital of our motherland, but we cannot ascribe all of our country's pluses and minuses to Moscow. I think that right now the regions have a genuine opportunity.

Kaluga is an over-used example, but it is a fantastic example. There is no gas or oil there, but nevertheless, investment was poured in there. Why? The governor adopted the correct approach to forming his team, the correct approach to openness. A desire to attract investors is not just window-dressing. It is manifested in everything. Therefore, I think that people with initiative are going to find all the solutions, people acting not 'thanks to,' but 'in spite of.' If those kinds of people are present, the region has every chance of doing well.

A lot is being said about how we need to stop the 'brain drain', and stop emigration from Russia. I think emigration needs to be stopped on two levels – we need to stop the brain drain from the regions to Moscow. One obvious fact: Moscow is being smothered, and overcrowding is producing problems leading to inefficiency. The job of keeping the best people with you in the regions, motivating them properly, is a serious job.

A lot is being said about small and medium-sized business. Small and medium-sized businesses should come out of the regions, not out of the Kremlin. Yes, the Kremlin can lay down the rules, but initiating and stimulating small and medium-

sized businesses is something that should take place on location, in the regions, in the municipalities.

Let me sum up my answer to your question. The role of the regions is growing, and the regions are being given the ability to take on responsibility for attracting investors. People who are prepared to do that, governors and their teams who take the initiative, today have every chance of being more successful than in the recent past.

Thank you.

R. Gerasimov:

Thank you.

I know how to stop migration. As soon as you give Khabarovsk, Yekaterinburg, and Nizhny Novgorod the same salaries as Moscow, nobody will move anywhere. End of story.

O. Goshchansky:

I will say this: we have 19 regional offices in the CIS, of which nine are in Russia – two in Siberia, two in the Urals, and offices in Moscow, St. Petersburg, Kazan, Nizhny Novgorod and Rostov. We hire local young people in all the sites where we open offices. Yes, to begin with they are supervised by a more experienced employee who comes into the regions from Moscow. We make sure that these are talented young people who want to stay in the region where we hire them, and salary is one of the important components.

R. Gerasimov:

Certainly, but I assume KPMG cannot pay identical salaries in Moscow and in its regional offices.

O. Goshchansky:

They are practically identical.

R. Gerasimov:

All right, that is a clear reference point. Thank you.

Mr. Knyagin, it is true that Kaluga has neither oil nor gas, but Kaluga is a model region. Do you share this optimism today about the potential for development in regions that might depend on the factor of the governor's team, or on the proper branding of the territory?

V. Knyagin:

Every time I attend these forums, I think about the extent to which these particular discussions allow people to speak frankly. Kaluga, Obninsk – these are the zones where incoming investors have placed their basic enterprises. Some part of that, of course, has also come to Kaluga itself, because that is the next most important location, after Obninsk, where a labour force of a certain size is concentrated. We do realize why all this investment has come to Kaluga, and there is no point trying to muddy the waters on this: it is 100 kilometres from Moscow. I agree with the assertion that the legal environment for locating industrial investment in Kaluga at that point was better. Land and labour were more affordable at that point. A hundred kilometres of ideal logistics to Moscow! At the same time, Klin, which is at the first junction between Moscow and St. Petersburg, was already overflowing with transportation at that point, and could not handle the situation logistically. Leningrad Highway is a bad direction to take, and all the other regions are farther away. The role of the governor's team, of specific people, is enormous, of course. I have just seen what six people, two initiators, are doing in Narva to start up a powerful industrial park that is counting on the arrival of investment from St. Petersburg. We must not underestimate this: a zone with perfect logistics will be the first zone for investment.

Here is a second point that we must understand. The Russian regions in general are waging a 1980s-style war for investment, according to 1980s-style logic. We are exchanging access to markets with placing new enterprises within those markets.

The war (the word 'war' is appropriate here) that has been waged in the world for investment, in this decade and the previous one, and maybe into the 2020s, is a war for access to talent, to concentrations of start-ups. Look at the recent laws adopted by national and regional governments around the world. London is placing its bets on start-ups, collecting start-ups from around the world. Out of the residents of Google Campus, created to draw in start-ups, only 50% have anything to do with Great Britain; all the rest have been brought in from the rest of the world. They are given entrepreneurial visas, and this suction tool is working. The United States recently adopted a start-up law. Start-ups, entrepreneurial activity, a deficit of entrepreneurs – this is being felt around the world. Canada has a start-up law, and so on.

We could list more of them.

Roman, I want to disillusion you. Of course, in the less densely populated regions, people might be retained with the help of super-high salaries. But if salaries in a region are higher than what is available in Moscow by just 20%, people will naturally choose Moscow. In Moscow, the workforce has some mobility: someone who leaves KPMG can work in a big ten company, if not in a big four company. If you hire an employee for an office somewhere in Novosibirsk, you have chained him to his desk. Where is he going to go in Novosibirsk if he is let go, where will he get a good salary? A civilized man has fallen into slavery. We will not be able to use any sort of barriers to stop the outflow if we place our bets only on the tools of the 1980s.

There is no tragedy in these issues, nothing predetermined, but there is some drama. We are waging the war of the 1980s, but in reality the battle is being played out in this current decade. We are investing in tools that proved their usefulness in the last war, but we are not discussing the future, that deep blue sea of another economy ahead of us, because apparently we do not have the prerequisites for it.

In Sophia Antipolis they have just launched a digital, I do not know how to translate it, boulevard or district, where a large number of controllers and transmitters assemble a digitized signal about how the infrastructure is working, and how people

are behaving in this digital environment. There is no regulation regimen yet; for now, they are only collecting statistics. Clearly, the next step will be to craft models that allow us to make the infrastructure endlessly flexible and adaptable to people's activities. That is where we are going to have to compete three to five years from now. I am not talking about the distant future; I am not talking about 2020 or 2030. That is what is happening now.

I want to ask you a question. Are we going to put off making the appropriate decisions every time, because we will convince ourselves that we have not accomplished the tasks of the 1980s? We have a great deal to do there. There are a lot of lessons stemming from that that we have not yet learned. Might it happen (I will not live to see it, but you, Roman, certainly will) that about ten years from now at SPIEF there will be a panel convened to discuss the issue of regional competition for investment, but with a completely different tone? Nobody is going to remember that we tried to draw investment into the outer periphery of Moscow, realizing that these days nothing could possibly be placed any closer than 30–40 km from the capital, because it would be at a logistical standstill. I am afraid Obninsk is also heading in that direction. People are already coming in to work in Obninsk from Naro-Fominsk and Maly Yaroslavets. That means this zone will be pushed even farther out. Why are we discussing this?

I will tell you honestly, I am happy for that region, I am proud that there is a governor there who is working scrupulously and diligently with every investor. I am afraid there will not be enough of that to let us concentrate investment in the distant territories of the country, and pull off some sort of strategic manoeuvre that will pack a real punch and provide us with some economic leadership.

R. Gerasimov:

Mr. Knyagin, we have moved ten years ahead in our imaginations. Tell us, would it be right today to build new centres of agglomeration and development in the Far East, for example, in Khabarovsk, and somewhere in the middle, for example, in Ulyanovsk? Is that possible?

V. Kalashnikov:

You know, I work both in Khabarovsk and in Ulyanovsk. I do almost no work in St. Petersburg, and in general I love my life, because it is an interesting one, but I spend a third of it flying from place to place.

The situation in Khabarovsk is being facilitated by the inflow of investment in the natural resources sector. Developing logistics could allow Khabarovsk to start sprouting some seeds in the surrounding territories. One timely question not just for Khabarovsk, but also for the country, is how to work with our neighbour, China. An enormous number of barriers – cultural, legal, and institutional – are keeping the situation anchored more in foreign trade than in the behaviour of a common market. Our Finnish colleague told us that the idea of building a common market raises a whole set of complex questions. He outlined the infrastructural issues, and only touched briefly on issues of access, policing and so forth. We realize that our Finnish colleagues have an enormous number of cultural and planning programmes, and strategic issues.

Ulyanovsk is in a slightly different situation. Ulyanovsk is trying to serve as a logistical hub, to get into that zone of perfect logistics. That is difficult to do, being in the centre of the heartland, a great sea of land, with no access to ocean ports or big logistical terminals. Ulyanovsk is moving in that direction. It is trying to do so. It signed a clusters agreement with the European Union, and entered into a union with the Pégase cluster in France, which is based on Airbus in Toulouse. It is trying to build an external interface as well, bringing in these communications.

In conclusion, in order not to disrupt the serene atmosphere here at SPIEF, and so that ultimately our good mood here will only increase – this is a great day, this is a great city, and all is well – I want to put a tick in this box in the margins, just to remind us. If we are counting on government instruments, we must not forget: every government in the world works, as a rule, with old instruments. There is a great danger that the old, when working with something newly emerged and alive, will

transform that new young thing into the same old sort of thing, that is easy to manage.

The likelihood of growth is there. We are in no condition right now to craft a scientific prognosis and indicate those points where tomorrow's leaders will emerge; that will depend on the initiative taken by specific people. Here, the state is a powerful aide and donor of resources, but I would not overestimate the role of the state. If we do not have groups with initiative and strong projects coming up from below, I am afraid we will not achieve anything.

I will return to the beginning of the second speech. What is the idea behind the start-up laws different countries are adopting? They realize that even in this environment of dense communications, there is an enormous deficit of entrepreneurs and new ideas. That is a recognized, confirmed fact. The question, most likely, is how to draw that energy, that initiative, into our own territory. And that territory, alas, often operates in its old, customary ways.

R. Gerasimov:

Thank you.

Just a minute, Mr. Khodachek.

Svetlana, if you could, some comments. How far into the future are you planning in St. Petersburg today?

S. Kogan:

Esteemed colleagues, I would like to comment and to thank you for your opinions.

It is perfectly obvious, and the government of St. Petersburg recognizes this, that the process of attracting investment is a business model. We need a very clear understanding of the investor and the target groups. The government of St. Petersburg has already put the necessary process in motion to create a unified information environment, an entry point for investors into the city. Of course, each investor has the right to take the path most comfortable for him, to act on what he knows, based on consultations with international experts or his own opinion. The

Committee for Investment is focused right now on shaping this platform, and creating this communications environment.

Our unified investment portal has been in operation since the first day of the Forum. We have launched it, and we will be shaping it and improving it in cooperation with the business community, and we will be consulting with working investors. If you are interested, the site is www.spbinvestment.ru. Within the committee, there is an agency for attracting investment, which is an entry point, a single base for consultation, and offers basic financial and legal analysis. For our part, we are creating opportunities, and building expert groups, inviting them to cooperate with us. Georgy Poltavchenko supports these initiatives, and he has been participating in person in the Investment Council sessions that have been taking place since March 2013. After July 15, the St. Petersburg and Leningrad Region Investment Council will hold its first meeting. That council will be convening once every six months, and we will see how the first one goes. It has very clearly defined points for discussion: the natural migration of personnel and land. We started this process back in the second session of the St. Petersburg Investment Council, with a demonstration of the Uralvagonzavod public project, which is located on two territories. Work is already underway, and there is a working group that is working together to resolve all the intersecting issues.

It is very good to hear our colleagues' opinions. Of course, those opinions do not have to be exclusively positive. Reasonable criticism is very important now, and we must recognize all the pluses and minuses, and accept all of that for the good, for the sake of the overall results for the city and the country.

Thank you.

R. Gerasimov:

Yes, Liuhto. Mr. Khodachek asked to speak first, and then it will be you.

A. Khodachek:

I would like to continue the discussion that Mr. Knyagin in led us into. One very important issue is the battle for labour resources, especially qualified labour resources. Technology is constantly getting more complicated, and even in the St. Petersburg area we can see today that in several sectors, or as we can say today, clusters, there are not enough of those qualified cadres.

For a lot of regions, big investment projects are not yet in reach. What is to be done? We must create the right macro-environment, create the right conditions to improve quality of life, particularly at the municipal level. That will be the first step – micro-projects within the regional and even local government budget. Big investment, including with the support of the federal centre, as a rule, goes to the traditional sectors and areas. If we are talking about small business development, about developing the municipal economy, then all we have are micro-projects, which provide some nurturing soil for development, in order to train a new generation of entrepreneurs and potential participants in innovative production.

One very important point is this. Legislation is the same everywhere. You know that regional legislation cannot contradict federal laws, and that a lot depends on the governor's team, but even more depends on people's recognition of the fact that here and now we are trying to create decent conditions for them to live in. If that practice continues, then the next step is micro-projects, and then, perhaps, investment. A branding system for the territories is going to be very important in that regard.

Thank you.

R. Gerasimov:

Thank you. Svetlana, any comments?

S. Kogan:

I would like to comment on the issue of legislation. There should not, indeed, be any gaps. St. Petersburg is a leader in terms of putting in place concrete public-private partnership projects. A law is now being drafted at the federal level, and during the

discussion an array of questions have been coming up about how to move forward in a global format. There are various practices available here. The regions have various positive and negative cases, and I will reiterate that it is important to exchange this information.

St. Petersburg is drafting an investment strategy until the year 2020, and we are putting special emphasis on comprehensive development for those territories in terms of quality of life, and in terms of balancing all the growth points and applying all sorts of activities. The issue of the balance between big projects and smaller initiatives is very important. I think that, with our joint efforts, we will arrive at some sort of systemic approach and a solution.

R. Gerasimov:

Svetlana, literally in a word: does comprehensive development of the territories mean the Leningrad agglomeration? Is that together with the Leningrad Region?

S. Kogan:

I think we will be answering that question after the first Investment Council meeting, but in general, without the cooperation of these neighbouring regions, which have been helping each other for a long time, and cooperating, there is no way we will manage. This is an absolute partnership.

R. Gerasimov:

Thank you. Now Liuhto is going to tell us not to forget to include Finland in the programme. Liuhto, go ahead.

K. Liuhto:

Many speakers have made a lot of wise points about the clusters, and I would like to stress a couple of points. In Turku we are building a maritime cluster, and are also focusing on biotechnology. I believe that the President of the Russian Federation is visiting Turku next week, and I think that we will hear more about this cooperation.

In order to be competitive, and to reach global significance, I would like to highlight the need to have not only national clusters, but international clusters too.

My second point is that we are working in other areas too, in addition to these clusters. Turku, Hamburg, and St. Petersburg have worked together on a joint project. The idea is to use European money to develop the Baltic Sea region together. It involves Germany, Finland, Russia, as well with other countries. We are moving forward, and we have certain first projects, focusing on energy. This would be the first step.

Lastly, we should not forget about future investors. At the beginning of this month, we established the first forum for young leaders from St. Petersburg and Turku, because we are living in a new age. People are looking in different ways, and I think that we have to as well – we have to think about the future, and bring these young talents together. Thank you.

R. Gerasimov:

Thank you.

Alexander, do you have any comments to make? I would ask that we move on to the point about branding in the territories. Do you see this as a useful tool?

A. Smekalin:

Thank you.

I actually wanted to touch on that point and return to the beginning of the second half of our discussion. I think we are devoting too much time and attention to the regional aspect. For some reason, nobody has yet said a single word about the federal aspect, and its role. This correlates very strongly with territorial branding.

Any investor – whether high-tech or not so high-tech – who comes into a region, or a country, is operating on two main things: a desire to economize on time and on resources. There are three ways to achieve this. First, there is the economic aspect, the economics of preferences; this includes economizing on resources. Secondly, there is the administrative aspect – that means economizing on time. Thirdly, there

is infrastructure – engineering, social, and educational infrastructure, or any kind of infrastructure – and this economizes on both resources and time. Infrastructure must be present on a territory when an investor does not want to spend time building it, and does not want to invest in developing it. That is the first thing I wanted to note.

The powers the regions do have include incentives and administrative support. Unfortunately, only a few of the regions can indulge in building infrastructure, given our territorial system of income distribution – municipality, region, and federal. There is no federal instrument today that could help a region build its infrastructure efficiently. There was an investment fund, which was an erratic tool, but it worked; now, unfortunately, that does not exist. That is the first thing.

The second thing is territorial branding. Regions compete for investors, but for what type of investor? For investors who have decided to come to Russia. The regions begin competing after the investor has decided to come to Russia. A region cannot compete with Brazil, China, Mexico, or India, or even with Kazakhstan, because that is a different level of authority and a different level of communication. I think many of the people here visit foreign countries fairly often, and we can turn on the television and hear what they say about Russia. Why does an investor choose Moscow or St. Petersburg? Many companies have the impression – not the big ones, perhaps, but the medium-sized ones – that outside Moscow's Ring Road there are bears roaming around. Here is a specific example. I was negotiating with a German company about coming into the region. They were listening, everything was great, they were happy, and then they said, "Now show us where you are based," and they opened their map. Their map ended at Nizhny Novgorod. That was their perception of Russia.

R. Gerasimov:

They thought there was nothing beyond Nizhny Novgorod but China?

A. Smekalin:

They thought there was nothing at all beyond Nizhny Novgorod. We are promoting our region, spending big money at exhibits and fairs, and were among the first to develop a brand for our territory, and we have representatives in foreign countries. If Russia does not begin to promote itself as a country that is interesting and favourable for investors, as Macedonia and even Georgia are now doing, the regions are going to have a hard time competing for investors.

Thank you.

R. Gerasimov:

Thank you.

I want to offer the floor to someone who does not exist as far as Germany is concerned, if I am not mistaken. Mr. Kalashnikov, you managed to build infrastructure as a basis for possible work by investors. What kind of tools do you use today? What is your argument to convince the federal centre to give you money for infrastructure? Aside from your neighbours' APEC summit.

V. Kalashnikov:

The Asia-Pacific Economic Cooperation (APEC) summit was a national project, not a regional project. The regions of the Far East would like to see more of them. But I would like to add a bit to what Alexander Smekalin said. He brought up a good topic.

Our roundtable today began with the talking point that the role of the regions is now becoming noticeably stronger. As a regional official, I think this is exactly the case. It seems to me that there must also be a reasonable balance here, and that too much attention is being paid to the regions. I believe we already have more than enough laws, and we do not need to change them; that is a big hindrance to investors.

There is also the organizational aspect. What does that involve? The federal centre offers a good start: the investment standard for subjects of the Russian Federation is a unified regulation, a unified regime for working with investors. Investment projects have been genuinely scaled up. For a region, the investment standard is

working with a small business, and that is the regional focus. A medium-scale project, or an inter-regional project, is not just a matter for neighbouring regions. There is a standard for working with investors for the subjects of the federation, but for some reason there is no standard for the Russian Federation as a whole, for the federal level. This is a serious error.

You said correctly about the branding policy for territories that we have no reason to go abroad and jostle each other around over there. I suggest this is more of a loss than a win. A genuine investor will see that we are competing, but he will get more out of that than we will. There is a serious question for you.

Thank you.

R. Gerasimov:

Thank you.

In the 1980s, there was a sensational story on Leningrad television. In the Kazan Cathedral, they set up an open microphone and video camera, and an ordinary factory worker came up and said, "First let us hear from the Communist Party Central Committee about what they are doing." I realize that that is what the regions now want to know.

Mr. Khodachek, go ahead.

A. Khodachek:

I want to support the regions. I can offer the example of the work being carried out with foreign consulates and embassies on the territory of the Russian Federation. They are authorized representatives of their companies and their entrepreneurs, as they promote their investment projects. We address the same kinds of proposals to our consulates, embassies, and trade missions, but very often officials from those offices simply do not even go to the same events that the regions attend. The efforts that the regions put in come to nothing. We carefully track whether or not federal officials, the Foreign Ministry, the ambassador, or the trade representative attend – and no, they do not tend to come.

Here is the second thing that is very important. At a meeting of the Council on the Development of Local Self-Governance, the question came up as to whether to allocate additional functions to the border territories in terms of foreign trade activity. That would solve many problems connected to territorial branding and the problems that our neighbours are successfully solving today. Returning once again to the Finnish and Estonian experience: there, the terms of cooperation along the border are decided at the international level, while we still cannot come around to that, for some reason, on our side of the border.

R. Gerasimov:

Thank you very much.

Mr. Goshchansky, a question: You have categorized the regions. In your experience, are they very different, with different starting data, different situations, and different teams? To what extent can the process of unifying work with investors help?

O. Goshchansky:

I think it can help. This is the unification of success, perhaps a formula for success. Each region needs to start with a self-analysis, a sharing of experiences, and by either creating or already having in place the institutions and infrastructure to hold a positive conversation with investors, especially international ones. International investors want reliability and predictability. European investors, who are used to order, to clear boundaries, to abiding by the law, usually want to see what we can offer them in terms of infrastructure. That is the first necessary condition: they need to feel comfortable and safe.

The second is substance, filling in the outlines. The human factor, the team, the supremely important role of the leader in success. Investors must see, not just on paper, but also in reality, things like the single-window rule, minimized procedures, transparent procedures, the existence of roadmaps and KPIs (key performance indicators). All this must be clearly written out, demonstrated, and presented to the

investors, but then it must be carried out, and carried out every day. Without the human factor, without the desire to bring it to life, you can take any good idea and wear it out. We need to make sure all this exists in real life, not just on paper. Therefore, unification, developing KPIs and roadmaps, can help, but that is only half of it. We need to want it, we need to want to be successful.

R. Gerasimov:

I will back up my question with an example. Right now we are actively discussing a solution that would allow foreign construction companies to come to Russia and build things here. They still do not know what it means to get a construction permit. The collection of documents, the cycle, and the insane deadlines are different in all the regions. The question is, can the federal centre sit down, think about it, and assemble a single set, the minimum, the kind they would not be able to add another 48 local items to in Khabarovsk, Ulyanovsk, or another region?

O. Goshchansky:

No, of course, the federal agencies still have their role to play. Right now roadmaps are being developed, a structure, and the Strategic Initiatives Agency is in operation. We are working together with that agency. It has orders from the federal leadership to draft roadmaps for the governors. This includes everything, including customs and construction permits, that is to say, all the issues related to business activity in the regions. There is a wish for business to be heard, for there to be a dialogue between business and regional governments. All this is coming out of the federal centre – for example, the creation of the agency I mentioned.

So the short answer is yes, we do not need to put all our hopes on the federal agencies. Realization and implementation will take place in the regions. That is the first point. Secondly, we can also promote our own initiatives from the regions in the centre.

R. Gerasimov:

Thank you. I would like to make just one comment, if I may. Mr. Knyagin, as a well-known sceptic, do you believe these roadmaps are going to work?

V. Knyagin:

The only thing that works is what works, and it makes no odds what you call it. For instance, the regions are facing a bigger job now, ideally obtaining for themselves a market centre on their territories. If there is no way to do that, it will be necessary to form agglomerations with the people at the core of where that market is forming. The process of cooperation and structuring, and agglomeration, is the key task facing regional policy from the point of view of development.

The second circumstance to which attention must be paid is that we must have strategic competencies. If they are building a maritime cluster in Turku, it is clear why it is being built there: they have the strategic competency to which what follows can be connected.

And the final, third thing concerns the very issue of the system of governance. We realize that the arrival of an outside investor is great, it means that the investor is mature enough to work with a large market, which means he has the competency, he has the skills, and he has the knowledge that we vitally need. In this sense, the arrival of an outside investor is not just money coming in. It is also a connection to his knowledge, and it is thanks to that that we grow.

Clearly, when an investor comes from one Russian region into another, and all the more so when he comes into our country from abroad, he requires a soft landing, a guide, because the cultural barrier is still there. Even if we fix all the rules, that will only help in relative terms. I am willing to agree with Svetlana. The question is more about whether there are agencies within the territories that are capable of providing this soft landing, taking him by the hand and guiding him through all the difficulties of the cultural differences, the different organization. Roman, I think that if you were to try to build something in London, you would go absolutely crazy. You would say, "Get me out of here, it is St. Petersburg for me, even with all the difficulties we have." So believe me, if it were not for what St. Petersburg is doing – taking the

outsider by the hand and leading him down all these complex corridors, removing all the cultural and situational barriers – no kind of rules would work at all.

Roadmaps are a good thing: they show what we need to deal with. They shine a light on our goals, but clearly, they do not achieve those goals. Oleg was quite right to say that a roadmap is an indicator that we need to work with.

R. Gerasimov:

Yes, thank you.

Oleg has been kidnapped by a TV crew – so it has been ordained. He has excused himself for a few minutes. As for me, Mr. Knyagin, I do not even want to go to Moscow, let alone London. Not yet, anyway.

Yes, Mr. Khodachek.

A. Khodachek:

For an investor to come in, of course, a significant change in the documents is required at the federal level. Most of all, the Urban Planning Code, in which many of the norms, even those that have been reconsidered, are heavy shackles on the legs of the administration and investors. Then there are the numerous regulations on various types of construction materials that send us back, sometimes, to the 1970s. Technologies have changed since then, and new materials have appeared. One very important point has to do with obtaining technical standards. Regional administrations, and St. Petersburg too, are supposed to create, either in a single-window system or, within committees on engineering, special divisions to elucidate an investor's requirements, approve the technical standards for them, and then issue those standards to the investor. Today this is a vicious circle that every investor must pass through.

The last point, a very important one, concerns the battle for territory. We analysed the distribution of investment throughout St. Petersburg's administrative districts. St. Petersburg would seem to be attractive to investment. We identified four groups, and in the first two there is a lot of investment, but in the third and fourth there is

practically none, even though they are purportedly territories within the same federal subject. The picture in other regions is even more dismal.

Our task is to have every territory approach a defined, single standard, from the point of view of technology, engineering, and the existing rules, so that the investor, along with the regional and federal centre, can identify a location, but in such a way that the rules, conditions, and the time he spends will still approach the optimum.

R. Gerasimov:

I am still asking the question about what many people are striving for: achieving equal conditions or an individual approach? Mr. Kalashnikov, today there are special projects that are federal and national in scale, and they come with special financing, which is no secret. Are you, for example, battling for some sort of special position?

V. Kalashnikov:

We, of course, are in favour of equal treatment overall. But what sort of equal treatment? Equal treatment means the ability for every potential investor to come into the territory. As soon as he has come into the territory, he settles in, locating himself in a particular place. At that point he has concrete expenses, concrete costs, and there is no way of escaping equal treatment. I mean equal treatment from the investor's point of view, from the point of view of the system for working with him, from the point of view of the fair exercise of his rights. If he asserts his rights, we, the territory and every region, are obliged to satisfy those rights on an equal and transparent basis. The rates for electricity, and for hooking up to the engineering infrastructure, are different in different regions. There is nothing to be done about that; that is the kind of economy with which we live.

R. Gerasimov:

Alexander, any comments?

A. Smekalin:

There will always be priorities, growth points, and jobs to be done at the national scale. We certainly do need to fight for that, but in what manner should we fight for that financing, for that support? Only by demonstrating efficacy. All spending must be efficient. If for every rouble of government investment there is one rouble of private investment, then that does not amount to a business state. If for every rouble of government investment there are 20 roubles of private investment, the taxes coming in will pay off the government's investment after two or three years. That is efficient business, and that is what we should be doing.

Mr. Goshchansky was right to say that an investor should be treated as a client, but not just as a client. The state must reconsider its position when working with investors. The state is also an actor in investment activities, one that invests its resources, but its return is social welfare on its territory. Now that principle is starting to be cultivated at the federal level, and if we are governed by that principle in the future in our investment policy, investing resources into infrastructure, I think that will be very effective.

R. Gerasimov:

Thank you.

A few minutes remain, so we will draw near to our conclusion. Are there any prescriptions for happiness for the regions or for regional development that have not yet been voiced? Svetlana, the view from St. Petersburg.

S. Kogan:

A short remark about investors. The St. Petersburg Committee for Investment has assigned itself the task of very quickly putting together a portfolio of investment in St. Petersburg. We are placing special emphasis not only on new investors and not only on foreign investors. This portfolio will consist of projects that have already been implemented by investors who are already here on the territory and know the specifics of this city. We need to maintain contact, and help to resolve issues arising

in the operations of working enterprises. The information field that is constantly going abroad to exhibits and forums is a club of interested individuals and consultants. We need to make sure this field levels off on the positive side with respect to St. Petersburg. This is very serious and painstaking work, and we need to run twice as fast. We are starting this job and would very much like to ask business to participate together with us in developing solutions to reach these goals.

Thank you.

R. Gerasimov:

Thank you.

Mr. Khodachek, do you have a summary for us? Do you have any prescriptions left?

A. Khodacheck:

I would say that there is one more prescription: that we must always be thinking about inter-regional integration. We often look at the programme of one region or another and see a mass of inconsistencies. This has to do especially with border territories. I would like to think that the first good example of cooperation would be the implementation of future joint programmes between St. Petersburg and the Leningrad Region – not competition, but a fight for combined investment projects.

R. Gerasimov:

I cannot avoid giving the floor to Liuhto, then, for a brief summary. Do you believe we will grow from neighbours into partnership, rather than into a battle?

K. Liuhto:

I will try to speak in Russian. This will be a very short speech. My prescription is this: less bureaucracy, more development. Regional competition no longer exists: it has become global. We all need to think globally.

R. Gerasimov:

Thank you!

Mr. Kalashnikov.

V. Kalashnikov:

The problem we are examining is very complex. As a regional government official, I see the problem of bureaucracy. There are serious issues with infrastructure, with financing for it, and so on, but bureaucracy is very serious. I do not have a prescription, but a dream, that an outside investor will finish his work and say, "Well, things did not quite work out for me, but only because of the market. But you guys, you did well. Thank you." But so far this is only a dream.

R. Gerasimov:

This is good – we end up with a negative story with a positive aspect. Very creative, very good.

Mr. Knyagin, your summary. Look, we are already connecting with Finland, and our agglomeration in the Northwest is clearly going in that direction. Will we make it to London?

V. Knyagin:

Roman, I really hope not. I want to live out my days in my native land. I am not the only one, you know.

R. Gerasimov:

Some people do not do so well in London, I agree.

V. Knyagin:

Yes. In summary, I can say the following. I do not think we have any ideal prescriptions right now. This is connected with the fact that we are really still testing the waters, trying to establish for ourselves new parameters of technological and industrial development, and they are not completely clear yet. Unfortunately, there

are a great many complications. We are looking at what a rich world we are going to be living in. A large part of our discussion here at the Forum has to do with the fact that the state is trying to cut down on the spending that went out of control during the crisis, but as soon as it starts to squeeze, the whole economy screams that it hurts, that we are losing our source of affordable money. We must get used to living in a world with a smaller amount of money coming in from the state, but that zone is still not very clear to us or well understood.

My third point. I can see that a new economic geography is being drawn out on the map of Russia and the world, but the final leaders here have not yet been determined. I think that for more than a couple of years, for two or three or maybe five years, we will probably have to live in experimental mode, putting in action one set of regional programmes or another, rather than with any sort of regular machinery. If we do not determine that for ourselves, then we will simply be reproducing experiences that are already available to everyone, but that could have been done for its own sake, without making a special policy out of reproducing that available experience. The question is: which of the regions will decide to carry out this experiment, and how new, radical, and interesting it will be for the world.

For me, our discussion is one conversation in a chain of thinking that is changing the regional development situation for the country and, perhaps, for the world.

R. Gerasimov:

Thank you very much. I want to thank all our speakers for the honest, genuine, and interesting conversation we have had. And I would like to thank the audience.

Thank you.