

## Emerging Europe

the rot by going back to basics and centralizing political and economic power. "He put an end to personal fiefdoms in the regions."

Hans Holzacker, chief economist for Russia at UniCredit, agrees that Putin's centralizing policy has paid dividends. "Centralization has been positive from a fiscal point of view in that there is much more economic predictability and that has helped to gain the support of the population." Although the Kremlinization of the Russian economy will not win Putin any plaudits from free marketeers, Holzacker says it plays well in Russia. "I don't think that Russian will ever subscribe to a totally liberalized economy," he says. "State control would never be re-established in a Gosplan-type way," referring to Soviet-era style economic planning.

Holzacker cautions that overcentralization has its dangers as well, however. "If we have overcentralization the cost would be increased cronyism and corruption, and that could endanger the long-term efficiency of the economy," he says. Halloran at Pharos acknowledges that despite the greater democratization of economic participation there is still a danger that the good work of the past few years could be undone. "Russia is still controlled by a relatively small group of people who act without many checks and balances and could make a foolish decision."

It's a danger that Putin himself has acknowledged in recent weeks. Addressing the heads of Russia's Chamber of Commerce and Industry at a meeting in early December, he said: "We are not planning to have state capitalism. It is not our choice or our way of development." The government would see to it that state corporations do not suppress other businesses, he vowed, by creating a purely market environment for them.

Leonid Vakeev, executive director at UralSib, one of the country's leading financial services groups, says that the big difference between 1998 and the present day is that there is much more confidence in the country's economic destination. "Everyone is convinced that Russia is now on the right path," he says. "Both Russian and foreign business people feel comfortable with the situation in the country."

It's a measure of the turnaround in Russia's economic fortunes that it is now attracting the attention of the very biggest players from the US, its one time ideological foe. In recent months leading US retailer Wal-Mart announced that it was looking to set up shop in Russia in 2008, and Citi, which has been hammered by losses in the sub-prime mortgage market in the US, recently announced that it would add further bulk to its banking network in Russia.

### Open to investment

Holzacker at UniCredit believes that despite any short-term political tensions between Russia and the West, Russia will remain receptive to such investment. "Russia welcomes FDI as long as it's not in economically strategic areas such as energy, where it has a vested interest to remain in control. It's good for it to have access to foreign capital on both a strategic and portfolio investor level in other areas."

It is not just Russia's access to capital that will play an important role in the future of the Russian economy, says Holzacker. The willingness of other countries to open their markets to Russian companies will also be significant. "The question of Russian access to the European Union and the spectre of EU protectionism



"The big goal is aligning our regional footprint. The Russian banking sector is still underdeveloped compared with the likes of Kazakhstan and Turkey"

Leonid Vakeev, UralSib

is a major issue that has to be confronted," he says, adding that expansion into international markets will play a key role in the development of corporate Russia. In this context the concurrent rise in the economic importance of China and India is a valuable counterbalance to Russia's often-troubled economic relations with Europe and the US.

"The secular rise of China and India has permanently altered the global petroleum balance," says Eric Kraus, manager of the Nikitsky Fund, one of several Russian hedge funds established in recent years to take advantage of the booming Russian economy. "Massive industrial growth in the developing countries is the primary driver subtending Russia's economic resurgence, and is not likely to reverse in the coming decades." Holzacker adds: "Emerging Asia is very important for commodity prices and Russia's political leverage with Europe over oil and gas supplies." Russia's ability to play off demand for oil and gas from China and India against that from Europe will play a key role in its economic future, he says.

"Russia will not be independent of oil and gas prices for the foreseeable future," he says, adding that ensuring a geographically diverse market for its production will be of key importance. "We're seeing buoyant growth in the non-oil and gas sectors of the