

The Chuvash Republik: Economy & Industry

Industrial complex

A leading place in the economy of Chuvashia is taken by industry that provides third of created gross regional product, more than 55% of receipts on tax payments, 65% of the profit. More than 30% of the population work at industrial enterprises. More than half of the basic production assets is concentrated here. Modern industrial complex is more than 350 big and medium-size companies of different patterns of ownership and about 3,000 companies of small business. In the branch frame the greatest share is taken by companies of engineering and metal working (45.3%), food-processing industry (13.5%), electric power industry (13.1%), chemical industry (9.6%), light industry (6.7%), and timber industry complex (2.5%).

Economic situation in the industrial complex is favourable as a whole. In dynamics of industrial production there is a tendency to growth for the last few years. And the growth of the volume of industrial output steadily exceeds the average Russian parameter. The latest developments and technologies of companies are represented at the annual exhibitions and fairs held while celebrating the Republic day at the end of June.

A number of companies produce goods unique in Russia and have significant industrial potential.

“Promtractor” JSC is one of the leaders in output of versatile industrial tractors, successfully used by companies of fuel and energy complex, gold mining, oil & gas, coal, mining branches, building industry and road facilities not only in Russia, but also in Europe. During some years the range of tractor equipment produced by the company was considerably expanded. Now in serial production there are nine basic models of full-track bulldozers - rippers of classes from 11 up to 50 tonnes, five models of tractors – pipe-layers, two models of wheel tractors.

“Cheboxary aggregate works” JSC is the leader of domestic engineering in production of spares to running systems of industrial, agricultural and skidding full-track machines, as well as units and parts of coupling for tractors, combines, and automobiles. Production of the plant is delivered to assembly conveyers of leading tractor-, excavator-, engine- and automobile-building companies of Russia and the CIS, as well as for export for the companies of the world level such as “Caterpillar” and “FIAT”.

The main part of the production of “Cheboxary research-and-production instrument-making enterprise “Elara” JSC is electronics engineering for aircraft. Within the framework of conversion the company mastered the production of automobile electronics engineering. The basic customers of the given production are the largest automobile plants of Russia – “GAZ”, “AutoVAZ”, “UAZ”, and “PAZ” joint-stock companies. Other conversion directions are being successfully developed, these being production of new generation integrated automation means for manufacturing processes at the objects of heat energy, of electronic compasses for marine, river boats and motor-vehicle transport, of the “BEST” informational - advertising complex for mapping of different information of advertising and industrial character, card payphones, electronic dials and taxocards. During some years past, the company purchased modern import equipment, which made it possible to take leading positions in the Russian market of the manufacturers of printed circuit cards of the 4th and 5th classes of precision, as well as in technologies of exact machining, surface mounting of the chip - units and highly integrated systems.

“Cheboxary electric apparatus plant” JSC is the largest electrotechnical company of Russia specializing in production of low-voltage equipment. It provides development, manufacturing and delivery of the relay assembly, contactors, low-voltage complete devices and devices of protection,

adjustable electric drives, of microprocessor devices for companies of heat- and electric power industry, oil and gas industry, metallurgical, mechanical engineering and chemical industries, of transport, agriculture, etc.

“Textilmash” JSC is a leading enterprise of Russia producing shuttleless looms of STB-type and it is unique in letting out rapier metal-weaving machine tools - automatic control units STR-100M and STR-130M. The company successfully cooperates with many foreign countries, delivering for export more than 70% of its production. The factory experts are permanently working at improving of the machines, by creating recently completely electronized loom with characteristics not conceding to foreign analogues.

“Khimprom” JSC lets out 200 names of production, among which there is unique product acetonanyl-N, trichlorsilan of semiconducting quality for electronic industry, sodium percarbonate. Dyes, chemicals for rubber and polymer materials, chloromethane, caustic soda and chlorine, chemical means of plant protection, goods of household chemistry are in great demand not only in Russia and the CIS countries, but in the whole world market. The level of manufacturing processes carried out at the company may be compared with similar processes of leading companies of Germany, France and other countries. “Khimprom” pays great attention to problems of ecology. One of the branches was certified under the system of ecological management in accordance with the requirements of the ISO 14000 international standard.

“Corporation “Cheboxary cotton centre” JSC is one of the largest processors of cotton in Russia. It produces a broad range of light cotton cloths, furniture-decorative cloths, cloths for table garment, yarn, and threads. There is sewing production, where they sew bedclothes, female and children's clothes. Since 2002, knitted production has actively developed.

Great work is carried out by industrial companies in the field of improvement of the quality of production, international methods are being actively introduced. Now 20 companies have certified system of quality on conformity to ISO 9000 international standards and one company has a certificate to the system of ecological ISO 14000 management. There is a presidential programme to improve the quality of production; annually the winner of the republican competition is determined.

High quality of production, its competitiveness promote development of foreign economic relations. The default of 1998 did not affect export of Chuvash production. Among customers predominate distant foreign countries. 85% of export is provided by leading industrial companies of the republic.

In the republic there is the Strategy for social and economic development of Chuvash Republic till 2010, which determines industrial-innovation policy to be perspective strategic priority of development.

The agrarian complex

Agroindustrial complex is an important sphere of economy. And here again, despite unfavourable economic and weather conditions, despite ineffectiveness of the Russian agrarian policy as a whole, Chuvashia has managed to preserve stability. It is confirmed by the conclusion of special researches of the Ministry of agriculture of Russia conducted throughout the country: Chuvashia was included in the number of 15 entities with the most favourable dynamics of gross agricultural production.

In the diversified structure of agriculture there are about 2,500 companies of different

organization-legal forms, including over 1,500 peasant farmer facilities. Enterprises of agricultural complex create more than 17% of the gross regional product.

In the frame of gross production the share of personal farms of citizens is 58.7%. Private sector produces 87% of potato, 91% of vegetables, 63.6% of meat, 66.5% of milk, 41.8% of eggs and 97.5% of wool.

The basic branches of agriculture are grain-, potato-, hop-growing, meat & milk cattle breeding, pig-breeding, poultry keeping, and beekeeping.

Agricultural commodity producers possess about one million ha of agricultural land. The share of ploughed land makes 80%. The share of production of plant-growing in the gross production of agriculture makes 51.3%, live-stock raising – 48.7%. The republic completely provides itself with open-ground vegetables. About 90% of the total gross yield of all vegetables is made by personal farms. By the quality production of potato-growers of Chuvashia is known in entire Russia. Seed and food potato in the republic is sold in many regions of the Russian Federation and is in great demand. The republican farms, using progressive technologies of potato growing and modern engineering, receive more than 200 centners/ ha. Four companies of Chuvash Republic were included in the number of the largest companies-producers of potato of Russia "Club-100".

Hop-growing is another priority branch of agriculture, it has a centuries-old tradition. Chuvashia covers about 80% of total gross yield of hop in Russia. The subprogramme "Hop of Chuvashia for 2003-2005" is being implemented in the republic to preserve and develop this unique agricultural branch. The International fair-festival "Hop and beer of Russia" is annually held in Cheboxary. New sorts of beer produced in the republic have received a high estimation of experts from Bavaria, Sweden, and Holland. Hop is used not only in brewery, but in pharmacology, food-processing industry, perfumery, even in atomic engineering and space technology as well.

In live-stock-raising Chuvashia specializes in production of meat and milk. The republic has rather developed network of pedigree farms capable to meet local demand for pedigree production. Today, the base of pedigree live-stock-raising is represented by eight pedigree plants and 40 pedigree reproducers on breeding different kinds of animals and bird. Plants on breeding pigs of large white species are the suppliers of pedigree production to other regions of Russia.

Food processing industry of the agrarian sector is represented by more than 70 companies producing wide range of meat and dairy products, confectionery bread, pasta, vodka and liqueurs, soft drinks, beer, canned food, starch, groats, mineral water, etc. Bee-keeping is traditional for Chuvashia. Four farms are engaged in pond fish-breeding, including two fish nurseries, which breed carp. Annually, more than 200 tons of fish is produced.

In the republic there is the "Republican agency of foodstuffs" - to regulate home market and to form regional food fund, "Chuvashagroleasing" JSC – to provide agricultural enterprises with machines and spares by means of leasing operations.

Small Business

Now, small business takes a more and more significant place in development of economy and is becoming an important factor of social and political stability in the society. For this purpose in Chuvashia the legislative and normative basis ensuring favourable conditions for its development has been created: laws on state support of small business, on investment activity, on the simplified system of taxation for the subjects of small business, on unified imputed tax on income. In development of laws normative - legal acts at the level of the executive authority and local government are adopted. The fourth republican programme on state support of small business is

being carried out. There is Agreement on cooperation between the Cabinet of Ministers of Chuvashia and the Development foundation of agricultural credit cooperation of Russia specifying creation of the effective mechanism of support and development of small agribusiness –the regional network of agricultural consumer credit cooperation. Today, in Chuvash Republic there are 4,200 small enterprises of different organization-legal forms and patterns of ownership, where more than 40,000 people work. The total number of workers engaged in smallbusiness with regard to individual entrepreneurs is about 90,000. The branch frame of small enterprises of the republic does not essentially differ from the average Russian one. The most widespread kinds of activity of small business companies are trade and public catering - here there are 40.7% of small enterprises. About 15% of small enterprises are engaged in construction, 13.5% - in industry, and the share of other branches makes 17.9%. Since 2002, there has been more effective mechanism of state support of small business by subsidizing part of the interest rate on credits of commercial banks and on leasing operations making financial resources accessible to the businessmen. Operations on microcrediting and leasing for the subjects of small business increased considerably. The set of measures is being carried out on overcoming administrative barriers in development of small business. Two major decrees of the President of Chuvash Republic regulate problems of assisting accelerated development of small business, creation of unified centres of servicing citizens and legal entities by "one window" principle. In the long term subjects of small business will become active market participants of cooperation deliveries and innovations, that is the formation of business is supposed to be carried out by the principle of "industrial districts". Highly technological ventures, technoparks in high technology industries being engaged in creation and dissemination of new technologies, applied scientific researches and developments, design activity, introduction of technical novelties will be established.

Banking Activity

19 commercial banks function in Chuvash Republic. The biggest are "Chuvashcreditprombank" and "Chuvashprofinbank". Big out-of-town banks opened their branches, e.g. the Chuvash regional branch of Agroprombank (Moscow), a branch of the Industrial commercial "AvtoVAZbank", a branch of "Russia-Mals bank" (Moscow), a branch of the Volga-Oka commercial regional bank of Vneshtorgbank of the Russian Federation (Nizhni Novgorod). The latter has established corresponding relations not only with the Russian banks, but with first-class banks of the world, such as Bank of New York, Chase Manhattan Bank, Dresdner Bank, etc. as well.

Extensive corresponding net of commercial banks provides a wide mobility in getting international payments through, with high efficiency and all forms of deals used in the world banking practice. Banks are equipped with all necessary means of inter-bank telecommunications, some of them working actively on the SWIFT system.

Both legal entities and private individuals, as well as foreign partners may be founders of commercial banks. Taxation of banks' profits is carried out according to the Law of the Russian Federation "On the profit tax of enterprises and organizations". The tax rate for all banks functioning on the territory of Chuvash Republic is 43% (13% is payable to the budget of the Russian Federation, 30% - to the republican budget). But within the framework of the reform in Chuvash Republic to regulate economic relations, banks have certain privileges. If banks direct not less than 90% of credit resources to meet the requirements of enterprises and organizations situated on the territory of Chuvash Republic, the republican profit tax rate for these banks is 10%. Besides this, privileges are given to the profit gained by commercial banks for granting loans and credits to the citizens of Chuvash Republic for construction and purchase of living quarters. In this case the tax rate is 5%.

In order to increase the volumes of credits and to stimulate the use of promissory notes on the territory of Chuvash Republic, some privileges are granted to the commercial banks providing

credits by promissory notes bearing no interest to the enterprises situated in Chuvash Republic.

The decree of the President of Chuvash Republic "On additional measures in regulating economic relations in Chuvash Republic" has played a positive role in attraction of banking and insurance capital to the territory of Chuvash Republic, as well as in extension of external economic relations with the neighbouring regions of the Russian Federation. It stipulates a 10% republican profit tax rate of banks and insurance companies founded after May 1, 1994, this rate being valid during three years from the day of registration of these banks and insurance companies.

Investment Activity

A targeted investment policy is being conducted in the republic. There are investment programmes including priority investment projects maintained by the Cabinet of Ministers of Chuvash Republic by granting state guarantees, budget credits, and tax privileges. 22 federal and 68 republican purpose-oriented programmes on particular development trends of economy and social sphere are being successfully realized on the territory of the republic. The state investment policy specifies creation of favourable conditions for development of investment activity, mobilization of available investment resources and attracting new ones in real sector for maintenance of indispensable rates of economic growth, priority direction of resources to gasification, construction of roads, objects of housing-municipal services and social sphere. For implementing the republican address investment programme (with regard to road fund) the sum allocated from the republican budget in 2002 was 2.1 times more than in 2001, the priority direction being development of public infrastructure, first of all, in rural districts. During some years past, in Chuvash Republic there is gradual increase of investment volumes in fixed capital at the expense of all sources of financing: in 2000, they grew by 4.6%, in 2001 - by 20.7% (in Russia - by 8.7%), in 2002 - by 8.3% (in Russia - by 2.6%). In total amount of investment volumes in fixed capital the share of big and medium-sized companies and organizations in 2002 made 71%. There is constant search for new sources of investments - bank credits, grants and other forms of financial injections and investments. There are business and trustworthy relations with such authoritative international financial institutions, as the World Bank, International Bank for Reconstruction and Development, European Bank for Reconstruction and Development. Chuvash Republic has reputation of a reliable business partner, effectively controlling public finances, strictly keeping to its obligations. By the results of rating analysis of investment attractiveness of Russian regions for 2001-2002 among 89 regions of Russia Chuvashia deservedly took the 16th place on investment risk, improving this parameter in comparison with 2000-2001 by seven points, the 15th place - on the infrastructural potential, and the 9th place - on ecological risk. In 2001-2002, only 12 entities of the Russian Federation had positive dynamics of the investment potential, and Chuvashia was among the three leaders on rates of its increase. In the republic there are guaranteed conditions and incentives for investors while carrying out investment activity on the territory of Chuvash Republic. Investors, irrespective of patterns of ownership, have guarantees of privileges on profit and property taxes depending on the volume of attracted investments in the part entering the republican budget. The law "On investment activity in Chuvash Republic" ensures the state guarantees of investors' rights, stable conditions of their activity on the republican territory, as well as a clear mechanism for rendering state support to investors. Nowadays, basic forms of state support of investors are granting of the state guarantees and subsidizing interest rates on credits of commercial banks for implementation of investment projects. By the law it is established that the limit size of the state guarantee granted for implementation of the particular investment project, cannot exceed 80% of the sum of loans. The organization claiming for obtaining the state guarantee is obliged to supply the deposit having a high level of liquidity. According to the Chuvash legislation, the norms of the newly adopted legal acts aggravating the situation of investors and conditions of their commercial activity, are applied in relation to the investors already carrying out investment activity on the territory of Chuvashia, after the expiry of the term

of payback of the investment project, but not earlier than seven years from the date of its effect. Thereby, the Government guarantees investors stable and predictable conditions for enterprising activity on the republican territory. Under the decree of the President, there is Council on investment policy, as permanently functioning body of the Government of Chuvashia. Implementation of active investment policy directed to the needs of the person and to innovation way of development, is the major tool for cardinal increase of efficiency and competitiveness of economy of Chuvash Republic, for rise of the living standards of the population.

Foreign economic and investment activity

At the present stage, foreign trade activity is one of the major directions for development of the republican economy. The foreign trade turnover of the Chuvash Republic in 2005 equalled US\$ 216.04 million, including export - almost US\$ 133.15 million; there was a positive balance of the foreign trade turnover. The Chuvash Republic maintains trade and economic relations with almost 70 countries of the world. The participants of foreign trade activities head for industrially developed countries. Kazakhstan, the Ukraine, Luxembourg, India, Germany, Belgium, the USA, and China take leading positions in the foreign trade turnover of the Chuvash Republic.

In 2005, 376 participants of foreign trade activities were registered. The largest of them are the “Khimprom” Jsc, the “Cheboxary aggregate works” Jsc, the “Promtractor” Jsc, the “Vurnary factory of mixed preparations” Jsc, the “Cheboxary electric apparatus factory” Jsc, the “Russian ceramics” Plc, and the “Promtractor-Promlit” Plc.

In trade and economic relations of the Chuvash Republic with the CIS states, basic partners are Kazakhstan, the Ukraine, and Belarus. In 2005, the Protocol of the session of working groups on coordination and development of cooperation between the Chuvash Republic of the Russian Federation and Byelorussia for 2005-2006 was signed to develop trade and economic cooperation more effectively.

Inter-regional cooperation is developing actively. The Chuvash Republic has trade and economic relations with 78 entities of the Russian Federation. Currently, the Chuvash Republic has contractual relations with 37 entities of the Russian Federation within the framework of 42 intergovernmental agreements (treaties).

Trade and economic relations with the regions of the Volga federal district are developing most intensively; commodity turnover makes 44.1% from the total amount of commodity turnover of the republic.

Specialization of the Chuvash Republic is delivery of the production of chemical, machine-building, light, food and processing industries to the regions of Russia. Caustic soda, food raw material ethyl and technical spirits, heating radiators and convectors, bulldozers, knitted garments and hosiery, confectionery products are in steady great demand.

The greatest volume of production is delivered to Moscow, Nizhnii Novgorod, Sverdlovsk, Samara oblasts, Republic of Tatarstan and the city of Moscow

The basic suppliers of production to the Chuvash Republic are neighbouring industrial regions: Nizhnii Novgorod, Chelyabinsk, Sverdlovsk oblasts, republics of Tatarstan and Mordovia.

A purposeful investment policy is being carried out in the Chuvash Republic, its basic purpose being creation of highly effective economic basis and the developed social sphere in the republic, creation of a favorable climate for attraction of domestic and foreign investors.

In 2005, the Moody's Interfax Rating Agency raised the national credit rating of the Chuvash Republic from the high level of credit status to the very high level of credit status.

Only a small number of Russian regions have received ratings of the international agency. This rating of the Chuvash Republic is an important factor making the positive image of the region in the international investment community.

According to the rating of investment attraction of the Russian regions, conducted by the "Expert RA" rating agency, the Chuvash Republic is included into the number of the regions having a moderate investment risk. Among 89 entities of Russia, the investment rating of Chuvashia is within the 45th-52nd places on the potential and the 15th-20th places - on the risk. In 2004-2005, in comparison with the previous years the republic rose to a higher step on legislative risk (the 16th place - the 18th in 2003-2004), political (the 26th - the 46th), economic (the 61st - the 64th), social risk (the 23rd - the 27th), criminal (the 19th - the 23rd), institutional potential (the 38th - the 49th), innovative potential (the 31st - the 36th).

The major factors that provide the investment attraction of the Chuvash Republic are as follows:

- political stability and interethnic consent
- sufficiently powerful industrial potential, characterized by prevalence of production sites with a high level of processing - mechanical engineering and metal working, food-processing industry, electric power industry, chemical industry, light industry, and timber industry complex are highly developed;
- magnificent environment - presence of extensive water resources (the Volga, the Sura, the Tsivil rivers, lakes), wood resources covering one third of the territory of the republic, presence of a number of mineral deposits perspective for development;
- a favourable geographical position and a developed transport infrastructure - the republic is located on the junction of the major automobile-, rail-, water-, and airways; on the density of highways with a firm covering Chuvashia is in the leading group among the regions of Russia;
- presence of qualified labour force having a high potential for training;

- a developed bank infrastructure using advanced bank technologies, and having an opportunity to serve foreign trade operations;
- modern telecommunication and communications, accelerated informatization in all spheres of active life of the population;
- presence of developed legal basis on the state support of domestic and foreign investors, including the issues connected with granting tax and other privileges.

A constant search for new sources of investments - bank credits, grants and other forms of financial injections and investments is conducted in the Chuvash Republic. There are business and confidential relations with such authoritative international financial institutions, as the World Bank, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development. The Chuvash Republic has a reputation of a reliable business partner effectively operating the public finance, and strictly observing the obligations taken.

As the tool of the state support of investment activity in the Chuvash Republic, various forms are used: granting of privileges on payment of republican taxes and profit tax of organizations, regarding those chargeable to the republican budget; subsidizing of interest rates under credits of commercial banks and leasing payments; granting of budgetary credits, investment tax credits, and the state guarantees of the Chuvash Republic under commercial credits.

In order to regulate legislatively the investment activity in the Chuvash Republic, the following laws of the Chuvash Republic have been adopted and are being constantly improved: “On the state support of investment activity in the Chuvash Republic”, “On issues of tax regulation in the Chuvash Republic classified by the legislation of the Russian Federation as taxes and duties to be collected by the entities of the Russian Federation”, decisions of the Cabinet of the Chuvash Republic “On the order of granting of the state guarantees of the Chuvash Republic on a competitive basis and on the Regulations for estimation of the efficiency of investment projects” dated August 27, 2001 No.196, “On the order of subsidizing of leasing payments to small business entities” dated April 25, 2003 No.101, and “On the order of subsidizing of interest rates under the credits received in credit organizations by small business entities” dated May 21, 2003 No.110, as well as Regulations on the Council of investment policy (decision of the Cabinet of the Chuvash Republic dated January 13, 2005 No.3) and the Republican target programme “State stimulation of development of the foreign economic and investment activity in the Chuvash Republic for 2005-2010” (decision of the Cabinet of the Chuvash Republic dated January 17, 2005 No.8).

In order to increase the efficiency of using land resources and to regulate the process of assignment of land plots before differentiation of the land property, on August 2, 2005 the Cabinet of the Chuvash Republic adopted the decision No.195 “On the order of disposal of land plots before differentiation of state ownership on the land on the territory of the Chuvash Republic”,

making a competitive distribution of land plots as a priority direction in developing land relations in the Chuvash Republic before the completion of the differentiation process of the state ownership on land. The Governmental commission was formed to control the observance of land legislation norms and to develop competition, Regulation on this Commission was adopted, and its structure was approved.

As a result, recently our republic has steady tendency of advancing growth of investments into fixed assets in comparison with the rates of growth as a whole in Russia. Thus, in 2001 the rate of growth of investments into fixed assets in Chuvashia made 117.3% (in Russia - 110%), in 2002 – 117.8% (in Russia – 102.8%), in 2003 – 117.9% (in Russia – 112.5%), in 2004 – 112.2% (in Russia – 110.9%).

However, in 2005 there was a deceleration of the rates of growth in the volumes of investments into fixed assets at the expense of all sources of financing.

As a whole in 2005, the volume of investments into fixed assets at the expense of all sources of financing made 18,956.8 million rubles or 105.7% to the level of 2004 in comparable prices, including those of large and medium-size enterprises – 10,754.8 million rubles and 105.1% accordingly.

The significant volume of investments into fixed assets was involved in processing industries (22.1% of the total amount of investments into fixed assets), transport and communication (21.4%), in the sphere of operations with real estate, leasing, and rendering of services (21.1%).

In the structure of investments into fixed assets on sources of financing the basic share (60.0%) makes the involved means of enterprises, 23.5% - budgetary funds, 11.0% - bank credits, 1.2% - means of non-budget funds, 3.3% - borrowed funds of other organizations.

Expansion of perspective business contacts, establishment and development of contacts with the trade representations of Russia abroad, as well as with various foreign firms and companies became priority directions for attraction of foreign investments.

As of the end of 2005, the organizations of the republic accumulated US\$ 38,652.1 million worth investments from the beginning of their investment according to constituent documents. Contributions to the capital, made by foreign co-owners of the enterprises, equalled US\$ 23.8 million in the total sum of accumulated investments.

From the countries of the far abroad (including the Baltic countries) significant means have been directed by Germany, the USA, Finland, the Netherlands, Cyprus, Virgin Islands (Brit.), Commonwealth of Bahamas, Turkey, and Switzerland.

For further development of the economic potential and improvement of investment attractiveness of the Chuvash Republic on the basis of transparency of the economic policy, on

January 20, 2006 the President of the Chuvash Republic signed the Decree “On measures for creating favourable conditions for attraction of additional investments into the real sector of the economy of the Chuvash Republic”. Its primary goals are as follows: formation of qualitatively new investment environment by increase of transparency and development of principles of corporate management in the organizations of all patterns of ownership, and creation of favourable conditions for attracting investments by organizations in the stock market in order to provide their steady development and to increase their competitiveness.