TRANSNATIONAL SECTOR OF THE RUSSIAN ECONOMY: PREDICTABLE DYNAMICS AND DEVELOPMENT PROBLEMS

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Abstract
Since the mid-2000s, the Russian economy has been witnessing the emergence and development of a new transnational sector on the basis of state-owned corporations. Essentially, it personifies a new economic management set-up, which has a significant impact on the national economy dynamics and is responsible for the creation of new development challenges. The integration of major Russian state-controlled corporations with the international companies, engaged in the reproduction cycles of international capital, has set the limits for the growth of national capital and thus restricted the internal sources of investment into the Russian manufacturing industry and R&D area. The attraction of foreign capital with a view to building up relationships between science and implementation of innovations under such conditions will provide a realistic possibility for inserting the R&D programs into the intellectual outsourcing agenda for the purpose of servicing the international corporations.

Key words: *Global economy growth rates, Russian economy, export-oriented sector, internally-oriented sector, transnational sector, state corporations*

1. INTRODUCTION AND THE RESEARCH PROBLEM

Currently, one of the most debatable issues is the problem of efficiency and vectors of the economic policies pursued by the industrialized nations in the West and Russia, in particular, the methods to intensify the US economy through the monetary and crediting system used by the Federal Reserve System (FRS) and, most recently, also by the Bank of Japan, as well as the "stiff" monetary policies implemented by the Bank of Russia. However, the visible effects of such policies are, at the very least, questionable. Without going into a protracted discussion of targets that confront the most precise and adequate mechanisms designed to estimate the value generated by the economic agents, which entails a more fundamental exploration of this problem than as a merely statistical factor [1, 2], let us formulate the key question as follows: Is the current Russian economic policy adequate if viewed to the situation in the world economy, structure, and aims of the activities undertaken by the major economic actors?

In this connection, it is expedient to provide a brief analysis for the development tendencies of the global and Russian economies and interpret the economic performance within the context of the prevailing heterogeneity of nations with emerging market economies.

The principal assumption is as follows: Russia, same as Central and East European countries, went through a number of phases while they made a stark quality transition from socialist-type economies to the modern economies during the 1980–90s transformation crisis, however, all of these states have retained their positions on the periphery of the global economy, as their economies have not been fully integrated into the international economic structure, but have remained internally-oriented in their regional economic business, which became specific enclaves. This segregation of national economies into the export-driven and internally-oriented sectors has given rise to the overriding heterogeneity of nascent economies, and this factor, in its turn, has determined their specific conditions and dynamics, and, consequently, the expediency of implementing a specially designed policy targeting various economic sectors of national economy.

2. DEVELOPMENT TRENDS OF THE GLOBAL AND RUSSIAN ECONOMY

Multiple opinions stated by economic and financial experts in business editions and popular science journals can be generalized as conveying a moderately optimistic message: The world economy in 2014–2015 is gradually re-emerging from the global crisis and making up for the downturn in business growth throughout 2011–2013. The US stock exchange indexes, in particular, can be quoted as indicators. Thus, for example, as of May 16, the Dow Jones Industrial Average Index (DJI) closed at nearly 16,500 points, which is up 20 percent from its peak before the 2008 mortgage crisis (at nearly 14,000 points) and almost up 45 percent from the Internet bubble boom peak in the late 1999 (at 11,500 points). However, all this looks much more like the growth of a financial bubble ready to explode and crush the stock markets and then the entire global economy.

For this reason, the author believes that the slower growth rates for the third consecutive year (after the post-crisis "rebound") in the emerging economies against the background of continuing budget consolidation in the developed nations provides no grounds for relying on any substantial acceleration in the global economy growth rates in 2014 (Table 1).

Table 1. Global Economy Growth Rates throughout 2007–2013 (Annual percent change)

Countries / years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Advanced Economies	2.74	0.10	-3.44	3.04	1.72	1.42	1.3
USA	1.79	-0.29	-2.80/-3.1*	2.51	1.85	2.8/2.2*	1.9/1.6*
Euro Area	2.99	0.38	-4.43	1.96	1.59	-0.68	-0.5
EU	3.41	0.59	-4.42	1.98	1.71	-0.30	0.2
United Kingdom	3.43	-0.77	-5.17	1.66	1.12	0.25	1.8
Italy	1.68	-1.16	-5.49	1.72	0.45	-2.37	-1.9
France	2.29	-0.08	-3.15	1.73	2.03	0.01	0.3
Germany	3.39	0.81	-5.09	3.86	3.40	0.90	0.5
Japan	2.19	-1.04	-5.53	4.65	-0.45	1.45	1.5
Developing Economies	8.70	5.87	3.11	7.52	6.27	5.05	4.7
Russia	**8.54**	**5.25**	**-7.80**	**4.50**	**4.30**	**3.40**	**1.3**
Brazil	6.10	5.17	-0.33	7.53	2.73	1.03	2.3
India	9.80	3.89	8.48	10.26	6.64	4.74	4.4
China	14.16	9.64	9.21	10.45	9.3	7.65	7.7
World based on PPP	**5.35**	**2.71**	**-0.39**	**5.18**	**3.94**	**3.22**	**3.0**

Source: World Economic Outlook Database, April 2014, IMF:
http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx

/ Data on Increment of Growth for the US in 2008 UNSNA/1993 UNSNA.*

According to many expert reviews, the US economy is facing steady growth prospects in 2014–2015; the aftermath of its deceleration in 2011–2013 will be handled efficiently, for the greater part (Table 2). However, such opinions are poorly substantiated. As evident in Table 1, the US growth rates have been steadily decreasing since 2012. Moreover, if it had not been for a switch-over to the new method

of GDP measurement and estimation (2008 UNSNA, United Nations National System of Accounts, from the 1993 UNSNA), then, in 2012, the US GDP would have risen by 2.2 percent, but not by 2.8 percent under the new method and, in 2013, it would have risen by 1.6 percent, but not by 1.9 percent. Even the 2009 downturn would have been deeper under the previous method—minus 3.1 percent (but not 2.8 percent under the new method). There are numerous questions in this respect as to what degree the economy can be measured in quantitative terms and whether its growth rates are overstated with the employment of the new 2008 NSA, but this is outside the scope of the present investigation and constitutes the subject matter of another research [2, 3].

The slower rates of the US economic growth were largely due to the reduction of investment into the fixed capital stock as well as the depletion of post-crisis recovery potential. Besides, the over-stimulating (termless quantitative easing) of the monetary and crediting policies pursued by the FRS is drawing to a close, it has substantially reduced the amount of the US government debt purchases. In December 2013, it was announced that the volume of the US mortgage bond and government debt purchases would be gradually curtailed, and since that time, the monthly bond purchases have been reduced from US Dollars 85 billion to 55 billion per month.

We would like to add that the recently issued preliminary data for the 1-st Quarter of 2014 indicate that the US GDP is -1.0 percent per annum as compared against the forecasted +1.2 percent[1]. The question arises: What factors can be responsible for the US GDP growth rates of 3 percent in 2015 (Table 2)?

Table 2. Global Economy Growth Rates in 2013–2015 (Projections, Annual percent change)

Countries / years	**2013**	**2014**	**2015**
Advanced Economies	1.3	2.2	2.3
USA	1.9	2.8	3.0
Euro Area	-0.5	1.2	1.5
Germany	0.5	1.7	1.6
Japan	1.5	1.4	1.0
Developing Economies	4.7	4.9	5.3
Russia	1.3	1.3	2.3
Brazil	2.3	1.8	2.7
India	4.4	5.4	6.4
China	7.7	7.5	7.3
World based on PPP	**3.0**	**3.6**	**3.9**

Source: World Economic Outlook, April 2014, IMF:
http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/tblparta.pdf

As far as the economies of the Euro zone and EU member states are concerned, in 2012–2013, the European economy was affected by recession (Table 1) and only in the 4th Quarter of 2013 it began to show the signs of sustainable growth. However, the preliminary data for the 1-st Quarter of 2014 indicate that this growth is weak: The Euro zone economy has been growing only by 0.2 percent on a quarterly basis (0.9 percent throughout the year), which primarily reflects the German economy growth rates where the economy expanded 0.8 percent on a quarterly basis (maximum for 3 years) and

[1] http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=1

2.3 percent throughout the year (in consideration of the calendar factor). Please note that France has exhibited zero growth rates, the Netherlands have shown a 1.4 percent slump, Italy has a 0.1 percent decrease, and Portugal, 0.7 percent decrease. It is most likely that slight symptoms of recovery will be visible in 2014 after the 2012–2013 period of recession, at the same time the statistical "base effect" will be of considerable relevancy. However, it should be also taken into consideration that the Euro zone recovery from the recession is contingent to a high degree on the continual growth of the international trade turnover at the rate of 4–5 percent throughout 2014–2015: otherwise the German economy will not be pushing the Euro zone economy ahead but will be hampering it instead [4].

The dynamics of Japan economy in 2013 is described, primarily, in terms of its reaction to the initial results of the Abe reforms—an unprecedented package of monetary and fiscal stimulation measures. Such stimulation measures caused the deflation to halt, but the macro-economic consequences appeared to be of minor significance (Table 1), while the effect of Abenomics in 2013 can only be perceivable on the dynamics of Japan's foreign trade. Since October 2012 (transition to Abenomics), the following changes can be identified [4]:

- The real effective Yen rate has been reduced by 22 percent;
- Exports increased by 3.8 percent, imports increased by 1.1 percent, although Japan's foreign trade deficit remained at the same level for almost a year and a half;
- The contribution of net exports into the GDP for the three Quarters of 2013 was 0.2 percentage points (as compared against 1.0 and 0.5 percentage point in 2011 and 2012 respectively). It happened against the background of slower dynamics of the foreign trade turnover throughout 2011–2013.

However, by the 2nd Quarter of 2013, the stimulating segment of Abenomics was finalized. The Yen rate got stabilized, and its subsequent weakening is only feasible under conditions of accelerated inflation. Although the repercussions from the stimulating fiscal package are traceable, it is most likely that they will be limited to the 0.5 percentage point contribution in the GDP growth (according to the IMF assessment). Now, the de-stimulating segment of Abenomics is next in line, but it might cause the deflation consequences to surface once again. It implies, primarily, that the VAT rate will be increased from 5 to 8 percent, which will bring about the downsizing of economic activities.

As far as the developing nations are concerned, China presents a most striking example where the economy has been demonstrating its stable growth rates at the historically low levels for the recent years, and this tendency was prevailing in 2013. Currently, the economy of the People's Republic of China is facing the trajectory of slower growth rates (Table 1), it is most likely to follow it throughout the year 2014, at least, the GDP growth rates are expected not to exceed 7.5 percent in 2014 (Table 2). A number of factors can account for the slower growth rates of the Chinese economy:

1. The restricting budget, monetary and crediting policies throughout 2010–2012 were only partially adjusted in 2013. The declared objective of such policies—elimination of the construction market overheating—was met only to a certain extent due to the structural nature of such overheated market and a substantial role played by the shadow banking business.

2. The positive export dynamics has been slower due to the fact that the primary markets have been saturated with medium-tech products (in connection with the rising competition).

3. The slower rates of revenue and internal demand growth as a result of import substitution production, deceleration of workforce influx into the cities, as well as slowdown of investments into the infrastructure throughout 2007–2012 have not yielded any long-term effect on the growth perspectives. This factor testifies to the fact that the policies of over-stimulation of internally-oriented sector of the Chinese economy throughout the period of 2009–2013 have been exhausted [5, p.p. 185–193, 5]. The economic growth in the People's Republic of China throughout 2009–2013 was related to the investment growth, which compensated for the shortage of external demand (the investments to GDP ratio was over 50 percent in 2013). However, having solved the problem of anti-crisis growth stabilization throughout the period of 2009–2010, the Chinese government created two other

problems: the problem of dubious credits (the credits to GDP ratio by late 2012 increased from 160 to 230 percent of the GDP) and the problem of structural growth disproportions. The excessively high normative investment rates imply that the investments are inefficient, and this will lead to the adjustment of existing investment rates and further slowdown and alteration of the growth structure for the mid-term perspective [6].

Overall, it can be concluded that the long-term trends cannot suggest that a swift and sustainable economic growth would be resumed again. It is required to make sure that the growth rates for the emerging and developed markets are boosted, but this trend in not in evidence and can hardly be predictable so far.

Russia

In 2012, many market analysts were prone to believe that the weakening of the post-crisis economic recovery growth in Russia was merely a phenomenon of restricted application and was determined by a number of market factors (first and foremost, these included the completion of major state-owned investment projects and adjustment of investment programs adopted by the companies who are natural monopolists), however, in 2013, it was clear the negative development scenario would prevail [7, 8].

In 2010–2012, the post-crisis growth phases were successfully overcome (the level of reserves was restored, the real wages were stabilized, the intensive growth of private investments was commenced). Nevertheless, the investment growth phase appeared to be suspended. The process was kick-started by the slowdown of the investment growth in major state-owned corporations (e.g. Gazprom, government development projects scheduled for completion); it was followed by the reduction of investments into the fixed capital of private companies.

A key factor responsible for hampering private investment into the fixed capital was a substantial reduction of business revenues. In the aftermath of Russia's economic post-crisis growth, its volume indicators (production output rates, rates of investment into the fixed capital) were approximately back to the pre-crisis level, while the financial efficiency (profitability, solvency) was below such level. Overall, in the economic sector, the profitability of sales decreased in 2013 to 7.7 percent (of costs) as compared against 9.7 percent a year before. Consequently, on the one hand, a deficit of own investment resources (gross revenue) came to the surface—a most important source of financing the investment process under the Russian conditions.

On the other hand, a gap between the business profitability level and the credit interest rates widened (especially the mid-term credit rates—for one year and longer used for the investment purposes). As a result, the economic growth was only 1.3 percent (Table 1), however, to a large extent, this related predominantly to the base effect. According to preliminary estimated, the investment into the fixed capital was reduced (–0.3 percent)—for the first time since 2009.

The GDP dynamics in 2013 was characterized by the factors listed below:

- The main source of economic growth over the previous years—population consumption—was exhausted;
- The exports of products (gas, raw materials, heavy engineering output) experienced a relatively high dynamics and the imports featured slow growth rates.

There is an official interpretation for the current stagnation in the Russian economy [7]:

The Russian economy has reached the limit of its production capabilities defined by the scale and magnitude of its capacity utilization, workforce number, and employment level. This is confirmed by the statistics that the capacity utilization rate across the key industries is almost 80 percent, in 2013 the unemployment rate was stabilized at the historic minimum (around 5.5 percent of the population number), which means, in consideration of extremely weak labor market institutions, the average domestic factor corresponds to the full employment. This leads to a conclusion that the Russian economy has been growing practically to the extent it is allowed to grow (due to existing restrictions); according to the evaluation of the Bank of Russia, thus, a negative discrepancy in the growth rates is only 0.5 percentage points. Under such conditions, any extra demand escalation (pursuant to the

Keynesian model) will not lead to any noticeable acceleration of economic growth—but will only be converted into the inflation growth (and/or imbalance of the balance of payments). As a matter of fact, against the background of stagnation in the Russian economy, it is close to developing symptoms of being overheated. This is an underlying reason for the extremely conservative policies recently pursued by the Bank of Russia and the Ministry of Finance (Minfin) regardless of the economic stagnation—prevalence of a high interest rate (8.25 percent since April, 2014), stiffening of budget policies, etc.

The vulnerability of this position is determined by a number of relevant factors:

A) The limits of production capacities are evaluated on the basis of General Equilibrium Model, applying which under the Russian conditions is questionable because of the lack of any adequate statistics related to the production capacities and fixed assets.

B) Taking into consideration that in the 1990s the investment activities were at their lowest, it means that in practice the manufacturing facilities of the Soviet era are in place alongside certain modern technological equipment installed in the 2000s. In this respect, the stimulation of investment demand capable of ensuring the modernization of manufacturing facilities can apparently have a significant impact on the growth. At the same time, a highly heterogeneous structure of economic sectors underlying the reinvigoration of investment activities in the Russian economy should be taken into account.

C) The reduction of employment was accompanied by a serious decrease in the employment efficiency. Throughout the recent years, the workforce was made redundant at the modernized industrial facilities (primarily, in the secondary industries) and was funneled into the relatively low efficiency trading and service sectors. From the institutional point of view, the redistribution was channeled from large companies to medium-size and small businesses. As a result, Russia, against the background of formal high employment rate of its population, has a significant proportion of hidden unemployment. In view of the low workforce mobility, there is a shortage of labor resources in certain regions (primarily, across the European part of Russia's territory, in the Volga region, and in the Urals) and a relatively high employment in other regions (Northern Caucasus, a number of regions in Siberia). On top of that, in the early 2014, for the first time throughout the recent years, the Russian companies began to see themselves as those who had been affected by the crisis and embarked on the optimization of their labor costs (involving restrictions related to risks of destabilization of socio-political situation in the regions).

The 2013 situation in the Russian industry was characterized by the following tendencies [9]:

1. Production output stagnation. According to Rosstat data, the 2013 performance results indicate that industrial output was 100.4 percent of the level attained in the preceding year. The assessments made the Center of Macroeconomic Analysis and Short-Term Forecasting (TsMAKP) under the National Economy Forecasting Institute with the Russian Academy of Sciences (INP RAN) also provide evidence of stagnation in the industrial arena; however, a more positive indicator is a 0.7 percent increase in the 2013 output. At the level of specific business activities, the tendencies underlying the output changes were markedly differentiated.

2. The financial position of industrial undertakings decreased substantially, it was primarily evident in:

- The profitability reduction: the sales profitability at industrial undertakings in 2013 was as low as 11.6 percent (of costs) compared against 13.7 percent a year before;
- The sagging solvency: ratio of net debt to the EBITDA industry estimation on the industrial arena increased by late 2013 by 2.8 times compared against 2.1 times the year before (overall, in the economy, by 3.0 times compared against 2.0 times).

3. Weak growth of investment into the fixed capital stock. According to the TsMAKP assessment, the investment volume into the fixed capital of large and medium-sized industrial companies increased by 3.1 percent judging by the 2013 performance results, which is higher than according to Rosstat assessment, (overall, in terms of all enterprises, the investment volume decreased by 0.2 percent).

4. Feeble growth of labor productivity. On the one hand, a leading group of industries can be identified where, as of the end 2013, the production intensity (average daily output) increased substantially. A very dynamic growth against the backdrop of stagnation, at the level of 3–7 percent was witnessed in the food production (without taking into account alcoholic beverages and tobacco products), chemical industry, wood-working, textile and clothing manufacture sectors, petroleum production, and other consumer product sectors (without taking into account durable goods). Production escalation in these industries was largely based on the expansion of internal demand, partially, import-replacement technologies, as well as export growth. A feeble but visible growth (1–2 percent) was witnessed in the mineral extraction sector, construction material manufacture, and leather and footwear production.

In contrast to that, a slight output decrease (1–2 percent) was evident in the output of electrical thermal energy, in the cellulose and paper production sector, as well as in the two heavy engineering subsectors (electrical equipment and transport vehicle manufacture), a noticeable drop (more than 5 percent) in the output of *investment equipment, household appliances, and electronics.*

In 2013, the real sector of the economy continued to witness adoption of *import-replacement technologies* sustained primarily by the increased level of localization, accelerated introduction of assembly plants, and boosting the output of a number of raw materials (in the chemical and forestry sectors).

As of the end of 2013, the export volume in comparable prices was reduced by 4.3 percent (in actual prices it was increased by 0.5 percent). At the same time, the end demand was boosted by 2.5 percent. Simultaneously, the imported products of investment designation grew by 2.0 percent and consumer commodities were reduced by 3.7 percent (assessment in terms of comparable prices). It should be noted that the above cited assessments of import growth can be slightly understated. There are certain grounds to believe that after the formation of a common customs territory within the framework of the Customs Union, a proportion of imports has ceased to be registered by the Russian customs authorities (i.e. part of the merchandise began to cross the external boundary of the Common Economic Area (CEA) without any registration—due to the lack of mutually acceptable tried and tested reporting mechanisms—when the boundaries between the CEA member-states are crossed. It largely relates to the consumer goods industry.

The stagnation of investments into the fixed capital stock in 2013 across the economic spectrum, at large, reflects a very acute differentiation of tendencies at the level of separate industries. Moreover, there is a qualitative change in the nature of investment process; roughly speaking, it is a gradual transfer from the state-controlled infrastructural and socially-oriented investments to the private production investments at the expense of own finances.

This transfer is manifested in the sharp decrease of investment activities within the transport sector, primarily, in the gas pipe construction sector and, to a less degree, within the railway transport sector. Over the recent period, the “Transport and Communications” business activities have attracted the largest amount of investment among the non-industrial economic sectors. On the average, over the last five years, this sector has accounted for one fourth of all investment into the national economy, which is a very high index as compared against the other economic sectors (the sector generated only 8.6 percent of the GVA (Gross Value Added) and also as compared against the investment activity in other countries of the world (the median level in other countries is exceeded at least twice).

The capital investment volume has been constantly on the rise since 2012 here. However, in 2013, the tendency was reversed—for the first time throughout a long period (since 2005, at a minimum) the investments into the transport and communications sectors were curtailed rather dramatically, almost by 11 percent. If it had not been for this curtailment, the overall investment level in the economy would have witnessed an increase of 2.3 percent.

What conclusions can be drawn from reviewing the development tendencies for the Russian economy?

1. The existing development pattern of the Russian economy has depleted its resources. The slowdown of economic dynamics can be accounted for by such objective factors as the protracted nature of the global economic crisis, as well as by the erroneous policies pursued by the Bank of Russia, which has

facilitated a more stable Russian Ruble in real terms, but has resulted in the higher cost of production factors and reduction of profitability of export-oriented businesses, especially those dealing with raw materials.

2. Within a short-term perspective, it means that the crisis might hit the government sector: the budget revenues have been rising to the same extent as the current (now stagnating) economic growth. However, the obligations assumed imply that the costs will be incurred on a rapid basis—a priori not in conformity with the expanding revenue base. The original symptoms of slower pace of economic dynamics were visible in the government sector back in the year 2013: against the backdrop of favorable foreign trade conditions, the non-resource taxes were sharply slashed. The budgets of the RF subjects were affected in a most serious way due to a substantial curtailment of income taxes. Some of these subjects were subjected to a deep budget crisis against the background of relative affluence of the federal budget.

3. In contrast to 1998–1999 and 2009–2010, the Ruble devaluation in 2014 is not likely to entail a new wave of economic recovery, inter alia, due to the reasons listed below:

- Considerable and increasing role played by imported products (component parts, equipment, quality raw materials) in the manufacture of competitive products and in ensuring the upgrading of the manufacturing facilities. Ultimately, the weaker Ruble leads to the higher financial costs involved;
- Serious dependence of Russian companies on external lending resources and the existing debts. The more expensive Russian private debt servicing is also fraught with losses to be borne by the Russian companies;
- Redistribution of revenues generated by exporters (natural resource royalty on exports) in favor of the government will entail that the greater part of the devaluation effect will be felt by the budget.

3. HETEROGENEITY OF EMERGING NATIONAL ECONOMIES

It is worth mentioning that the institutional and technological structure of the Russian economy is largely determined by the transformation processes related to the mixed Soviet economy, which commenced in the late 1980s and were closely linked to the legitimization processes concerning the so-termed “shadow” economic sector, on the one hand, and to the transnationalization processes administered in the national economy, i.e. it integration into the global economy through foreign trade mechanisms, on the other hand. This process (with multiple reservations) resembles similar processes designed to constitutionalize the national production environment and markets throughout the 16^{th}–19^{th} centuries in the developed nations [10, p.p. 76, 79]. However, in the author’s opinion, the Soviet economy represented a complicated fusion of diverse types of economic management and varying degrees of development of economic relations that cannot be reduced to any formation classifications [11]. For this reason, the specific method of integrating the Soviet economy into the world economy is exemplified by the foreign trade: the USSR exported mostly raw materials to the developed nations (oil, gas, timber, etc.) and also heavy engineering products, including weapons and military equipment, to the nations with the socialist orientation. The Russian economy inherited its traces from its predecessor, the Soviet economy, and this factor has predetermined its specificity in reproducing its financial and economic systems.

The Russian economy, throughout its recent history, within the framework of transformational crisis of the 1990s, went through a number of development phases and created three basis economic sectors:

- Export-oriented sector (Fuel and Energy Complex), metallurgy, and some other export-oriented industries) integrated into the world economy and designated to support the functioning of international finances;
- Internally-oriented sector as a cluster of regional economic enclaves where the local financial and industrial groups are reproduced with the assistance of regional authorities;

- Sector of infrastructural monopolies such as Gazprom and JSC Russian Railways.

The transitional period involving the formation and initial admission of the Russian economy into the world economy was complete approximately by 1996. The economy of this type withstood the 1997–1998 Asian crisis in a relatively safe manner and within the framework of its recovery period (involving a certain deceleration in 2001–2002 due to the world crisis in 2001) demonstrated throughout the first half of the 2000s remarkably striking growth rates. The expanded reproduction of the Russian economy, in terms of demand, was sustained by the population consumption and, in terms of supply, relied on the manufacture of consumer commodities (predominantly, as part of the "agriculture–food industry" chain).

Let us have a look at the changes affecting the share of the export-oriented sector within the RF GDP (Table 1). The size of this sector was estimated as follows: first, the added value amount of gross volume of export-oriented industries is assessed (oil and gas production, petroleum refining, metallurgy, chemical production, and wood-working industries). It is evident that the production growth in those sectors gave rise to the revenues, which were subsequently redistributed and shaped the demand. Using the method of calculating the multiplicative effect, three basis distribution channels for such demand were taken into account: growth of investment into the fixed capital stock on the basis of revenues generated in the export-oriented industries of the economy, expansion of public consumption on the basis of tax revenues, and population consumption growth as a result of wage increase and other payments to personnel [12, p.p. 6–9]. The contribution made by the transport vehicles (pipelines, railway lines, air and sea transport), trading operations (related to sales and retail divisions within vertically integrated companies), financial activities (related to the financial operations of exporters). Considering these industries, the contribution of raw material exports into the economic growth can be even greater.

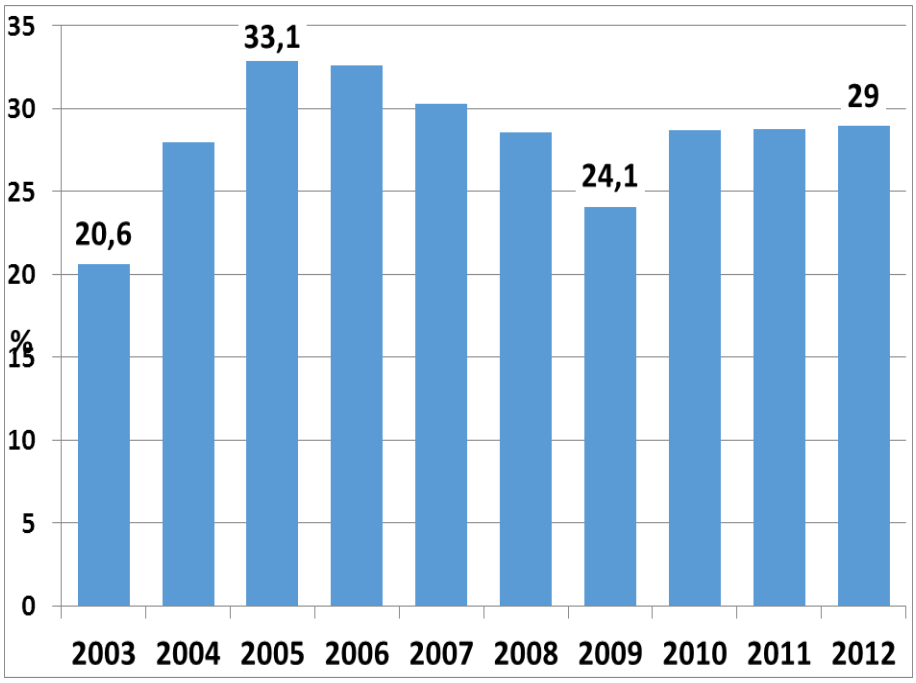


Figure 1. Share of Export-Oriented Sector in RF GDP throughout 2003–2012, percentage

Figure 1 shows that the export-oriented sector (over 33 percent) reached it its peak by the mid-2000s, it started to gradually shrink afterwards, which was related to the retooling processes under way in the Russian industries and at import-replacement manufacturing facilities. At the same time, the internally-oriented sector developed at a much slower pace before the mid-2000s and was, in fact, in decay. De facto, the export-oriented sector expanded largely at the expense of the internally-oriented

one, including the finance and banking sector, which is primarily involved in extending loans for the purpose of transacting export-import business, and when it is involved in extending loans within the exclusively Ruble zone (with the exception of trading), it is accompanied by *a sharp increase of the lending rate* (in consideration of credit risks). Such a financial and banking pattern that was shaped approximately in the late 19th century facilitated a capital flow from peripheral nations into the developed nations, which eventually led to the investment shortage for the development of emerging national economies and, consequently, decreased their economic growth rates.

The present research is based on the assumption that during the new development phase, approximately in 2004–2006, an internally integrated ("federal") market began to be shaped through forced elimination of regional barriers by the government (in political history it is referred to as the fight against the sovereignty of individual subjects of the Federation). This process led to the formation of a new set-up (sector) of the national economy on the basis of infrastructural monopolies and part of export-oriented companies, which were transformed into corporations with the state-owned blocking stake (which were termed in hi-tech industries as *integrated structures*) or directly into the state corporations. This group of companies, for the most part, has begun not only to export capital abroad but also to invest it into its own development within the Russian territory, and not only into its parent manufacture, but also into the other related industries as well. Therefore, a *specific transnational sector* engaged in the manufacture of internationally competitive products, and functioning not as world capital but as capital designed to promote modernization and expansion of internally-oriented sector began to shape in the Russian economy.

Let us try to evaluate tentatively the dynamics of this transnational sector, which occupies a share of export-oriented and a share of internally-oriented sectors (Figure 2), for the purpose of simplification without taking into account the transport, finance and banking sectors. The added value amount of this sector was assessed through summing up the added value of the biggest Russian companies, which were selected along the following criteria:

- The company's products should be steadily competitive on the world and domestic markets;
- The company should make investment not only in the development of its own export-oriented manufacture, but also in the internally-oriented manufacture, including investment into the related industries, whose output enjoys demand on the local market and is conducive to the implementation of import-replacement technologies.

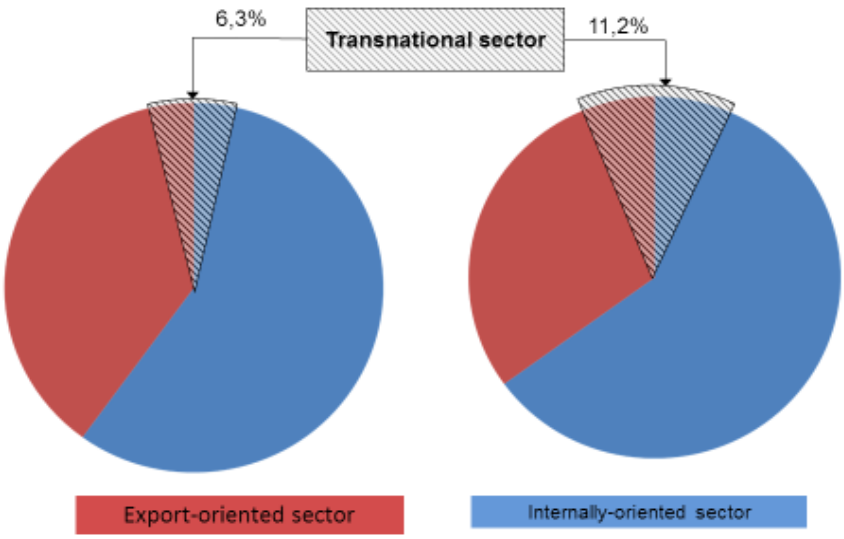


Figure 2. Share of Transnational Sector in the Russian Economy in 2005 and 2012, percentage

For the most part, the heavy engineering companies were included in the final 2005 list, and only Gazprom was listed among the infrastructural companies. In 2012, the list of companies was much more extended, including the chemical and metallurgical industries. Transportation, logistics companies and trading agents were excluded from the list, as well as those pertaining to the banking sector and construction industry.

Figure 2 shows that the transnational sector experienced a more rapid growth than the national GDP. In terms of permanent prices, Russia's GDP rose in 2012 by a factor of 1.284 as compared against 2005, and the share of transnational sector in the GDP grew by 1.78 times.

In view of a predictable new wave of crisis phenomena in the world economy, the export-oriented sector within the mid-term perspective will be stagnating, as a minimum, while the internally-oriented sector will be reduced. At the same time, the chance for growth is granted only to the companies pertaining to the transnational sector, however, they will develop at the expense of both export-oriented and internally-oriented economic sectors.

Thus, the economic policies of the Russian government need to be considerably readjusted to support the transnational sector, which is due to contribute to the upgrading of the Russian economy within the long-term perspective.

4. CONCLUSIONS AND SUMMARY

What conclusions can be drawn from the above?

4.1. Throughout the period of 2010–2013, the Russian government conducted restricting policies (not budget-stimulating or monetary and crediting policies) aimed at curbing inflation. This led to the slowdown of Russia's GDP in 2013 below the average international growth rates, and this can potentially bring about a reduction of relative share of the Russian economy in the output manufactured globally and, consequently, will not contribute towards increasing the competitiveness of Russian products worldwide.

4.2. The policies pursued by the Bank of Russia involving the increase of refinancing rate with a view to combatting inflation and capital outflow is in fact fraught with excessively expensive credit resources available for business companies and can result in the winding up of operations of companies engaged in the real economic sector.

4.3. The Russian economy, likewise all of the emerging national market economies, is basically heterogeneous in the institutional, financial, and economic aspects; it can be tentatively divided into the export-oriented and internally-oriented sectors. In truth and in fact, the economic policies of the extended Russian government seek to facilitate the development of the export-oriented industries and suppress the operations of internally-oriented companies.

4. 4. The formation of the transnational sector on the basis of infrastructural monopolies and a proportion of export-oriented companies are conducive to the creation of material preconditions for changing the economic policies. If the policies are re-focused to support the transnational sector, which is capable of boosting the upgrading and extension of the internally-oriented sector, it will provide a possibility for restoring the production and technological potential in the long-term perspective and, consequently, for boosting the GDP growth rates.

4. 5. The formation of the Eurasian Economic Union in 2015 will expand the economic territory for the development of the transnational sector. In its turn, the introduction of economic sanctions against Russia on behalf of the G-7 nations will cause the Russian economic situation to worsen in the short-term perspective, but will facilitate a transformation of the Russian economic policies, over the mid-term perspective, designed to support not only the transnational sector, but also the internally-oriented industries. This will promote the introduction of import-replacement technologies and the emergence of the new political and economic elite oriented towards the real national advancement.

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