STRATEGY OF INTEGRATION OF RUSSIA INTO THE GLOBAL ECONOMY (FRAMES AND POSSIBILITIES)

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Abstract

New approach to social and economic reforms in Russia is based on the following assumptions: historical trend of Russia's behavior in the globalized world leads to the dead end of self-isolation; standard liberal models threaten social and political defragmentation of the country; obstacles to effective global economy integration need to be clearly defined. The strategy of private-public partnership aimed at creating economic cluster of the national economy effectively integrated into the global economy is proposed based on these assumptions.

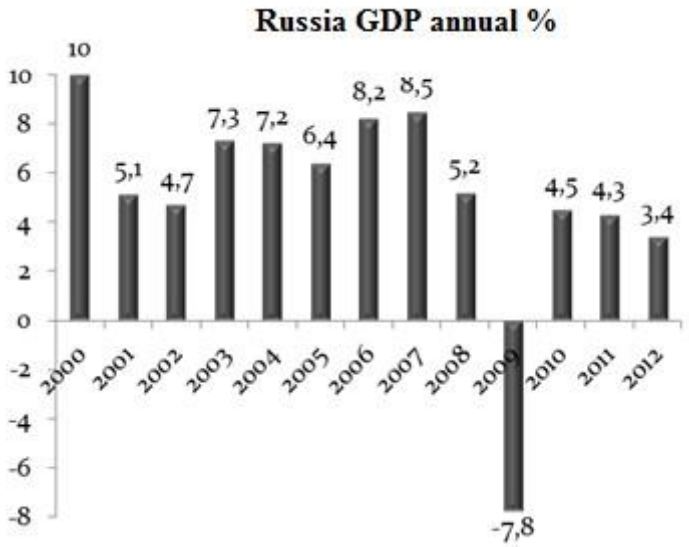
Key words: *economic reforms, global economy, Russia*

The proposed strategy provides for an effective integration of Russia's economy into the global economy, i.e. arrangement of conditions for the creation of modern highly-competitive production with higher added value integrated into the global production chains ("made-in-world").

The need to develop and implement such strategy is justified by the lack of prospects of inertial behavior strategy and the strategy based on the use of standard liberal development models.

Main barriers on the way of the proposed strategy implementation (unfavorable geographic location of the major areas of economic activity, lack of own financial resources) are considered along with the ways to overcome them based on private-public partnership.

The current situation in the national economy of Russia is definitely critical. This is evidenced by objective indicators, which are generally used to assess national economy behavior: GDP growth (-3.8% in 2015 according to Rosstat), inflation rate (11% in 2015 according to Rosstat), unemployment rate (about 5%, which is relatively low, but the experts suspect high rate of hidden unemployment) can be mentioned. However, these indicators provide rather accurate assessment of economic behavior within the standard economic cycle. If the economy of Russia is on the downturn of such cycle then the standard fiscal and monetary policy measures applied by state regulatory authorities should with high probability place the economy on the upward path within several years' perspective. Nevertheless, we hear the Minister of Finance of Russia saying about the chances of decades of indefinitely low economic development ("The situation is long-term. We don't expect the kind of rebounds in terms of improved balance of payments that we used to have in the past. Therefore, we are preparing ourselves for continuous work under the existing circumstances", — said Anton Siluanov, Minister of Finance of Russia, at the extended session of the Federal Treasury board (cited by TASS) [1], and this is not the only statement of such tone. For example: "The recent slowdown of the Russian economy has fundamental roots and cannot be overcome by 'simple' measures like alleviation of monetary or fiscal policy." [2]. If we expand the scope of time domain analysis at least to 2009 – 2016, then we have grounds for suspecting that the economy of Russia has faced not just the next wave of market downturn, but more fundamental barriers on the way of its development. It may be illustrated by next chart.



Source: Ministry of Economic Development of the Russian Federation
http://economy.gov.ru/minec/activity/sections/macro/prognoz/doc20130325_06

There is a famous work which provides classification and analysis of nature and geographic and social and economic factors in the modern world and their impact on the level of social and economic development [3]. It contains extensive evidential material on this topic, although, according to the authors of this work, the combination of factors considered by them is favorable for Russia, however, it is unclear what prevents successful realization of potential of the Russian economy.

The authors of this article propose a strategy that is different from the strategies arranged in line with standard "dirigist" or liberal approaches.

We should definitely mention the well-known "Washington Consensus" [4] as the most famous liberal approach to the development strategy. According to the authors, none of the ten points of this documents separately may be recognized as erroneous, but the main problem is the lack of measures in it that take into account the particularities of a specific national economy.

The authors discuss the "THE FORECAST OF LONG-TERM SOCIAL AND ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION FOR THE PERIOD TILL 2030" [5] as an example of dirigist strategy. The forecast was developed by the Ministry of Economic Development of the Russian Federation in 2013 and is the latest official document dedicated to these issues.

According to the authors, the main drawback of this forecast, as with many previous ones, is that it pays insufficient attention to the changed nature of the global economy, the key success factor of which is represented by effective and flexible integration of national economy into the global system of international economic and industrial relations.

Using the standard approach, the location in a certain clearly defined system of coordinates should be determined in strategic analysis and planning, and then targets or limits should be determined within the same system of coordinates, and then the development of the strategic path should start, taking possible barriers between the initial location and the targets into consideration.

In the work described, the authors analyzed four countries and tried to work out the strategy for changing the position of the Russian Federation in relation to the remaining three countries. In addition to the Russian Federation, the economies of the USA, Germany and China are considered.

The US economy was used for comparison since this economy is the largest in the world in terms of GDP, and it is the economy that demonstrates the most innovative vector of economic development (research and development costs indicator).

China, the second largest economy in the world in terms of GDP, is distinguished by the impressive economic growth rate and is also the largest international trade participant and major trade partner of Russia.

German economy is significantly smaller in terms of GDP size than the US and Chinese economies, but it may be compared according to this indicator with the economy of Russia; it also ranks as one of the leaders of the international trade, and this economy is also a major trade partner of Russia.

Russian economy ranks among the top ten countries in terms of GDP, it falls far short of the above economies in terms of international trade contribution.

The abode properties of national economies should explain their selection as the targets for the development of the development strategy of Russia.

The authors suggest using the following two indicators as the system of coordinates for the strategy development: GDP per capita and the average annual economic growth rate. These two indicators, being other than the gross indicators, characterize the economy efficiency and its dynamic potential that to a greater extent correspond to the task set by the authors – the search for effective Russia's integration into the global economy.

According to the authors, the four national economies selected as reference for the development of strategy (source WTO) possess the following indicators:

	National economy	GDP per capita	Annual % of economic growth
1	Russia	12 937 USD	2
2	Germany	47 627 USD	1
3	USA	54 629 USD	2
4	China	7 594 USD	8

Source: WTO (calculations made by the authors)

These data may be represented in matrix form adopted in strategic analysis:

	Low GDP per capita	High GDP per capita
High % of economic growth	China	
Low % of economic growth	Russia	USA; Germany

The strategic target is to move to a group of countries with a high GDP per capita - Indicator, for which purpose the sharp increase of economic growth rates is required. Assuming the target value of level of GDP per capita equal to 51,000 USD, then the growth rate to reach this indicator in 15 years shall be at least 9.6% per year. Nevertheless, this extremely high value is not unrealistic. Modern economic history knows such examples (Japan in 1950s – 1960s, China in 1990s). Therefore, the question arises: what can be the booster of such growth. Economic theory [6] suggests four options:

1. Growth due to internal household consumer expenditures;
2. Growth due to increase of government expenditures;
3. Investments growth;
4. Exports growth

Internal household consumer expenditures are viewed as the preferable source of growth over the long term, however, not for the indicators of 9-10%, particularly in view of moderate population size of Russia (about 143 mln. people and low and unstable demographic growth rate).

Growth due to increase of government expenditures over the long term involves uncontrolled growth of public debt and restriction of the government regulating functions in economy.

Investments growth is an effective economic development factor of a country, however, over the long term it will require significant amounts of foreign investments to ensure the targets of 9-10% are met (according to the estimates of the authors up to 1 trillion USD per year, and such investment resources are not domestically available in Russian Federation).

Exports growth, according to the stories of successful economic development of many economies of the modern world (Japan, Germany, China, SEA countries), is the factor that should form the basis of the long-term economic strategy.

Therefore, the general strategic diagram may be as follows:

- First stage: Government programs of institutional and infrastructural reforms aimed at expanded attraction of direct foreign investments in the above specified scope.
- Second stage: Use of incoming direct foreign investments flow for extended exports of Russian products to foreign markets. The main objective of the strategy, that is, reaching the economic growth rate of 9-10% should be implemented at this stage.
- Third stage: Connection of internal consumer demand to economic growth to ensure the economic dynamics sufficient stability.

The key economic barriers on the way for such strategy implementation are represented by the problems of attracting direct foreign investments in sufficient scope and ensuring the exports of products from Russia under competitive terms and conditions.

Over the past 25 years, these problems have not been solved. According to the authors, this was due to the wrong selection of targets for attraction of foreign investments. It was implicitly assumed that these investments should facilitate the solution to internal economic and social problems of the country, whereas it is obvious that the objective of any private investor is to obtain profit. In fact, direct foreign investments exist in Russia exactly where it is possible to obtain profit and in the scope, which is justified by the expected profit margin. Traditionally, these are the sectors of raw product industry, and sectors aimed at satisfying internal consumer demand. Consequently, the result of their attraction is very limited. Significant expansion of the scope of direct foreign investments attraction will be possible if the export potential of products produced with the attraction of these investments is proved.

This circumstance – the limitation of export possibilities for the products manufactured in Russia – represents the second and, perhaps, the most important barrier on the way for the proposed strategy implementation.

WTO research dedicated to the development of global value chains contains the information on the effectiveness of various WTO member countries involvement in such chains. The data for the four above mentioned countries are as follows:

	National economy	Cost to export at the border / cost to import at the border (US$ per container) 2014	Days to export at the border / days to import at the border 2014	FDI inward stock trillions US$ 2014	FDI inward flow billions US$ 2014
1	Russia	2401/2595	21/19	0,38	56,4
2	Germany	1015/1050	9/7	0,74	112,2
3	USA	1224/1289	6/5	5,41	336,9
4	China	823/800	8/5	2,33	259,1

Source: WTO (calculations made by the authors)

The represented data demonstrate an important problem of Russian economy, its producing industry export potential is currently non-competitive as compared to the leading market players and this limits the possibilities of attracting direct foreign investments in the industry and economy of Russia.

The above mentioned data demonstrate the barriers to export delivery of products manufactured in the country to the national boundaries, and most notably, to maritime boundaries, since it is the maritime trade that ensures the main flow of cargo turnover of processing industry products. Therefore, we should add data of the World port ranking 2014, which indicates that Russia in fact has no major ports for exporting its industrial products in the scope necessary for the implementation of the proposed strategy.

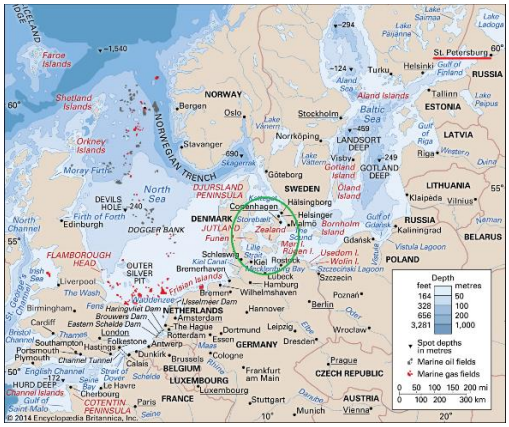
Container Traffic TEUs (Twenty-Foot Equivalent Units), 000s			
Rank	Port	Country	TEUs
1	Shanghai	China	35 286
2	Singapore	Singapore	33 869
3	Shenzhen	China	23 798
4	Hong Kong	China	22 374
7	Qingdao	China	16 624
8	Guangzhou	China	16 160
11	Rotterdam	Netherlands	12 453
15	Hamburg	Germany	9 729
20	Long Beach	United States	6 821
60	Oakland	United States	2 394
61	Hampton Roads	United States	2 393
63	St. Petersburg	Russia	2 375

Total Cargo Volume Metric Tons, 000s			
Rank	Port	Country	Tons
1	Shanghai	China	678 376
2	Singapore	Singapore	581 268
3	Guangzhou	China	500 975
4	Qingdao	China	465 055
6	Tianjin	China	445 780
7	Rotterdam	Netherlands	444 733
8	Ningbo	China	429 912
9	Dalian	China	337 366
11	Hong Kong	China	297 737
13	South Louisiana	United States	242 578
15	Houston	United States	212 561
26	Hamburg	Germany	145 673
34	New York/New Jersey	United States	114 451
39	Amsterdam Ports	Netherlands	97 790
46	Beaumont	United States	79 184
48	Bremen Ports	Germany	78 236
49	Long Beach	United States	77 136
50	Corpus Christi	United States	77 047
51	New Orleans	United States	76 628
56	Novorossisk	Russia	70 000
60	Hampton Roads, VA	United States	66 862
65	Baton Rouge, LA	United States	62 765
67	St. Petersburg	Russia	61 200

Source: American Association of Port Authorities
http://www.aapa-ports.org/unifying/content.aspx?ItemNumber=21048
(calculations made by the authors)

It follows from the above data that at now Russia has only two ports in Novorossiysk on the Black Sea and in Saint Petersburg on the Baltic Sea to export its industrial producing products by sea. The growth potential of cargo turnover of both these ports is limited by fundamental geographic factors: both seas the Baltic and the Black have limited connectivity to the World Ocean (the Bosphorus strait on the Black Sea and the Danish straits on the Baltic Sea).





Source: Encyclopedia Britanica (http://global.britannica.com/place/)

The only possible way of overcoming this barrier may be represented by the accelerated creation of a new industrial cluster in the Far Eastern Federal District of Russia (FEFD). In the authors' opinion, in several years the size of this cluster may multiple time exceed the export potential of the entire modern industry of Russia. Clearly, it will require the implementation of several conditions, both economic and political and sociocultural. At that, the particular importance of sociocultural barriers on the way of implementing the proposed strategy for the creation of the leading export-oriented cluster should be particularly emphasized.

Such ambitious task will require large-scale attraction of public resources in the infrastructure projects of this region. This has already been mentioned, when the stages of the proposed strategy implementation was discussed.

However, an even more important and complex task within the framework of the strategy considered is represented by the task of social reformatting of Russian labor resources. FEFD is the region that is currently considered peripheral, scarcely populated, with poorly developed infrastructure. This is evidenced by the national statistics data [7].

Indicator	Absolute value	% share of all-Russian corresponded value
Population (thousands of people) (2015)	6211,0	4,2
Employees (thousands of people) (2014)	3267,5	4,8
Gross regional product (billions of rubles) (2013)	2808,3	5,4
Export from region (millions US$) (2014)	28681,3	5,8
Import to region (millions US$) (20140	10653,1	3,7
FDI to region (millions US$) (2014)	3940,0	17,2

Source: Rosstat (http://www.gks.ru/); calculations made by the authors

At that, it is obvious that eventually a critical amount of about 40 million jobs should be created to address the tasks set as part of the strategy. Another important social aspect will be represented by orientation of employers and employees of this cluster to the global market rather than to the Russian domestic market. These problems cannot be solved only using the efforts of economists.

Sociocultural barriers on the way of this strategy implementation may be defined as the fundamental transformation of traditional value and behavioral system of the majority of Russians. In the authors'

opinion, the desired effect of such transformations may be represented by the openness for change and the ability to actively participate in them, development of social mobility attitude in all senses (vertical and horizontal). The development of ability to interact with global sociocultural systems on a competitive basis is also essential. Note that in the event of successful implementation of the proposed strategy the development of these qualities will contribute to the new dignified image of the new Russia.

Therefore, sociocultural barriers to the country's economic transformation require considerable understanding and development of appropriate sociocultural strategy.

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