

## **ECONOMIC GROWTH AND COMPETITIVENESS OF ECONOMY: EXPERIENCE OF RUSSIA.**

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*Factors of the Russian economic growth are analyzed in context of their historical development in the article. The degree of their influence on formation of competitiveness of national economic system is discovered. Prospects of economic growth and competitiveness of the Russian economy are defined.*

### **Introduction**

Already more than 15 years peoples of Central and the East Europe actually live in the new states. But not only titles of former socialist countries were changed; the basic principles of functioning of national economies were changed. The whirlpool of globalization, promptly involving the national companies in rigid game under rules of the world market, presents new requests to quality of national economic systems, to a level of their global competitiveness.

At the same time, theoretical circuits and recommendations of international experts on questions of competitive development are not always effective if they do not take into account local specificity, historical features of formation of national competitiveness. This property of national economy is shown especially brightly in modern Russia where many experts today directly coordinate slowing down of rates of economic growth to its low competitiveness. The purpose of the present article is establishment of a relationship of cause and effect between economic growth and competitiveness of the Russian economy at the previous stages of its development for determination of a possibility and directions of the dynamical and balanced economic development in modern conditions. For this purpose we will decide the following problems:

- a) distinguish and analyze factors of economic growth of Russia in a context of their historical development;
- b) reveal a degree of their influence on formation of competitiveness of national economy;
- c) define prospects of economic growth and competitiveness of Russian economy.

### **Economic growth in imperial Russia: causes and effects.**

Let's start with that native and western experts recognized high enough rates of economic growth of pre-revolutionary Russia. "Growth rates of imperial economy, - American economist P. Gregori established, - were rather high from the point of view of the world standards of the end XIX - the beginnings of XX centuries. Russia belonged to group of countries with fastest developing economy, as the USA, Japan and Sweden". In opinion of the English historians L. Milvord and S. Soul "since 1880 industrial growth of Russia was the fastest in Europe". This is confirmed also with the Russian statistics: in 1885-1913 the mid-annual gain of a gross national product in Russia was appreciably above, than in countries of the Western Europe: 3.4 against 2.7 %.

Thus unknown for all previous history of country economic growth of the end XIX - the beginnings of XX centuries has been stipulated, first of all, by high rates of growth of the Russian industry and railway construction. Only for 1887 - 1900 the volume of a commercial production has grown in 2.5 times, number of industrial

workers - in 1.8 times. The network of railways has increased from 4.68 thousand versts in 1870 up to 70.3 thousand versts in 1915, i.e. more than in 15 times. Russia in premilitary years gave up only the USA and Japan on growth rates of a manufacturing industry, but Japan has overtaken Russia only after 1900. According to the accounts executed by employees of the device of League of the Nations within the framework of comparative study of processes of industrialization and development of international trade, the share of Russia in a global commercial production has increased from 3.4 % in 1881 up to 5.3 % in 1913. In the same time shares of the advanced industrial states (excluding the USA) showed the stable tendency to decrease. Thereof backlog of Russia, for example, from the Great Britain in production of an industrial output was reduced for 1885-1893 three times, and from Germany - to a quarter. By 1913 Russia has closely come nearer to France on absolute volume of a commercial production, having overtaken it on melt of steel, production of machines and cotton fabrics.

At the same time, it is necessary to note, that as the basic method of protection of the young Russian industry the imperial government actively used, first of all, customs regulation, practically completely eliminating a foreign competitiveness. Helping a birth of domestic textile production, it already from the end of XVIII century began to increase duties on ready fabrics. Hereinafter, with the statement of a domestic weaver's and cotton-printing industry increased customs tariffs for a yarn have been entered that has helped to become independent to Russian cotton spinning. In result it was made in Russia 90 % of a home consumption of cotton fabrics and a yarn to 1861. The duties increase at sugar raw material has supplied growth of sugar production (for a decade before cancellation of serfdom in Russia the share of import of sugar in consumption has fallen with 92 up to 22 %). Later the government conducted similar policy concerning a basic industry. In 1870th years it promoted a birth in Russia transport mechanical engineering and production of rails from import pig-iron. And in 80th years of XIX century, sharply having lifted duties on pig-iron, it stimulated in Russia also development of ferrous metallurgy. In the beginning of 1890th years the imperial government has passed from encouragement of becoming of individual industries to common protectionist policy which expression became the customs tariff of 1891. For the sake of justice we shall note, that at the end of XIX century many countries, including more advanced, than Russia (for example, the USA and Germany), were fenced off by customs barriers from a foreign trade competition. However the barrier created by the Russian government was not the highest (the level of entrance duties in the USA was higher), but the most dense since covered wider stock line.

Meanwhile, the non-competitive conditions have also the back side. Though the Russian industry grew promptly, but it did not maintain competitiveness in the world markets and has been focused, first of all, on domestic markets. The industrial output constituted less than 10 % of all Russian export. Before the First World War Russia had been exported abroad only 6-8 % of made production. Moreover, the share of the Russian enterprises in global export constituted only 4.2 %, and in global import constituted in general 3.5 % (a share of Russia in the population of globe was 10.2 %). Thus, in the beginning of XX century Russia represented practically independent

economic system within the framework of the world market. It almost completely provided herself with all necessary and almost entirely consumed that had made.

The First World and Civil Wars have broken off weak foreign trade ties of Russia, it was even more having strengthened its isolation from the world market. This circumstance played the important role after the October revolution of the 1917 which have created ideal conditions for accomplishment of unique experiment on creation of special economic system which subsequently has been transferred into other socialist countries of Central and East Europe.

Keeping in the party political underlying reason of all these events, we attempt to reveal in dynamics the system reasons of a long-term inefficiency of socialist economy (in our understanding - its noncompetitiveness) in comparison with its elder brother - market economy. As the question on it, despite of “fading” dynamics of interest to it in the last 20 years, till now represents for many modern scientists basic significance from the point of view of institutional analysis, allowing to understand logic of a survival and persistent preservation of many informal limitations, which results of activity we feel today. Especially important the understanding of the reasons of a general inefficiency of system is represented in view of grandiose achievements of the Soviet economy, actually, from first years of its existence.

#### **The reasons of “The Soviet economic miracle”**

Really, the planned economy started with amazing successes. Despite of monstrous destroying after the First World War the Russian economic system has shown surprising ability to self-recovering, its regenerative process was going faster than in European countries. Then, within the first Stalin five years' plans, the USSR showed extreme high rates of economic growth, appearing especially convincingly on a background of Great depression in the USA and the European countries. During the Great Patriotic War the Soviet economy stands tests again with honor: the front has been provided with competitive arms and foodstuffs. After war, without any external help, the Soviet economy was actively restored, showing high rates of economic growth, striking successes in science and an industry (table 1). Having started the first space satellite and the first cosmonaut, the USSR till the beginning of 1980th strongly retained the status of a global super state.

**Table 1.**

. Mid-annual rates of increase of an industrial output of the USSR and some capitalist countries (in percentage)

	The USSR	The USA	England	France
For 49 years (1918-1966)	9,9	3,7	2,1	3,7
including:				
For 38 years (1929 - 1966)	11,1	4,0	2,5	2,5
For 32 years (for 12 pre-war years and 20 post-war years, excepting years of Great Domestic War, i.e. on the average for 1929 - 1940 and 1947-1966)	14,3	3,8	3,2	4,2

All it added arguments to supporters of a planned economy constantly. This economic system with some updatings was “exported” from the USSR to other socialist countries. The comparison of some parameters of economic development of the European

countries with market and planned economy (table 2) enables us to repute availability of common principles of functioning of new type economic system.

**Table 2.**

Growth rates of the basic parameters of economic development of countries - members of Council of Economic Mutual Aid and countries - members of European Economic Community (1960 = 100)

	1970	1980	1986
Made national income			
countries - members of CEMA	191	319	391
countries - members of EEC	160	215	234
Production of industry			
countries - members of CEMA	223	415	514
countries - members of EEC	166	209	220
Volume of agricultural production			
countries - members of CEMA	133	156	182
countries - members of EEC	125	151	160

Moreover, the Soviet experience was adopted not only by brotherly socialist countries. In Japan, in France the fashion for planning has come in national experience, and many scientists consider now, that only due to planning these countries have become independent after war. Initial efficiency and significant popularity of economic system of new type have been stipulated by what factors?

Historically developed mobilization character of the Russian economy (a strong authority as the main tool of upgrade), and also participation of Russia in the First World War promoted formation of the Soviet planned system already during a Civil War 1918 - 1920. Real elements of that then began to refer to as a socialist planned economy, have been born by practice of military economy - rationalization, regulation of production, limitation of the market, etc. The basic features of economy of new type were saved within New Economic Policy. However in the finished and complete kind it had developed in 1923-1933 and had been functioning practically without serious changes till 1988. The basic items, on which the Soviet economy based, have consisted in the following:

1. Denial of the market and a competitiveness, displacing of market prices regulation through the plan (determination of tasks and distribution of material resources for their fulfillment in a nature).
2. Full closeness of economy: all external relations were committed exclusively through state authorized agents.
3. A state ownership on all production assets (formally existing collective-farm property was controlled by the state in practice).

The economic system developing on these principles was unique: it completely countered to market economy and was absolutely incompatible with it. Any strengthening of state planned management conducted to suppression of market relations, any development of market relations or even their preservation undermined the planned beginnings (especially evidently this repugnancy was showed in "mutation" period of economic system - years of New Economic Policy). And though concerning a question on parity of genetics or teleology in economic planning (whether planning should start with the conscious purposes or from objective conditions of development) firstly there were hot discussions, in theory

and in practice the undivided rule of administrative methods of economic development was established. The will of a revolutionary class was represented as a factor which is capable to overcome any economic tendencies.

However, it is impossible to explain so essential successes of planned system in the first years of its existence only by “will of a revolutionary class”. It is possible to assume, that the socialism as economic system had all properties of policy of “import replacing industrialization”, which basic features just are active interference of the state in economy, rigid protectionism and closing of economy. As the history of XX century has evidently shown subsequently, the similar policy was often conducted by countries with low or average level of development with the purpose of overcoming backlog from global economic leaders.

The basic short-term consequence of “import replacing industrialization” is a considerable increase of national economy at the expense of partial limitation or even complete elimination of a foreign competition. The total state control for internal and foreign economic relations allows (if there is physical possibilities) to import necessary technologies and the equipment (sometimes with the subsequent perfecting and upgrade) at the expense of export of production of raw-material producing sectors of national economy to accrue currency resources and to direct them according to accepted national priorities. Besides the similar situation in national economy is extremely attractive and for foreign investors.

It is naturally, that “import replacing industrialization” of “the second echelon” countries in this case reputes establishment of tariff barriers against import of finished products more essential level (world practice is twice above and more), than at the advanced countries. And there is quite logical argument. At open customs borders noncompetitiveness of a domestic industrial output in a combination to inflow of the direct foreign investments going predominary in an agriculture or a mineral industry (by virtue of availability of the cheap labour, the reconnoitered stocks of mineral wealths or traditional branches of agriculture), conducts to washing away yet not got stronger branches of a manufacturing industry and to strengthening of key economic branches. It is necessary to note especially, that during becoming a manufacturing industry in the basic industrial countries the arithmetic-mean level of their tariff protection also was high enough: in 1875 – 12 % (including in the USA - 45 %), in 1913 – 17 %, in 1925 – 19 %, and in a period of “great depression” - even 32%. Only after the Second World War this level has decreased to 16%, and to the beginning 1987 - up to 6.3%.

### **Negative consequences of economy closeness**

However, despite of visible ease of the decision and high productivity of the first stage of industrialization under aegis of “import replacing” policy, in these conditions as practice shows, there is inevitable an increase of the difficulties, braking the further development of national economy. The problem will be that long-term consequences of this strategy conduct to opposite results: in non-competitive conditions quality of production of a domestic manufacture remains low, costs remain high, the nomenclature of production is narrowed, and export of a manufacturing industry is reduced. It conducts to that competitiveness of production, despite of general economic growth in country, in this case has the stable tendency to decrease. As practice shows, even items of the enterprises

belonging to the foreign capital, becomes lower in quality, than production of controlling companies. Foreign investments also have rather low limit of saturation: as soon as there is a filling of home market, in conditions when on foreign markets production does not find demand, they start to fall. Thus if still there is in doubt a competitiveness of raw-material producing branches of national economy (including because of changes of market conditions) possibilities for carry of technologies also become complicated.

If at the first stage the less developed country shows high rates of growth in production of toilful consumer goods (textiles, clothes, footwear, food stuffs), at attempt to proceed to creation of capital-intensive productions (building materials, machines, the equipment) the basic problems begin. First of all because of narrower home market; this does not allow to use effect of economies from quantity production. Together with expensive import semi finished items and the equipment it conducts to essential rise in price of a domestic production in comparison with similar import. Thus, higher circles of an industry appear unprofitable; they become a burden for a public finance which aspires to support their by grants or tax privileges. All economy starts to have a pressure, rates of its development fall. The unique variant is to stay, having taken advantage of short-term benefits, and gradually open economy, pass to policy of export encouragement.

Experience of industrialized countries of Southeast Asia (Taiwan, Korea, Hong Kong, Singapore) is most typical in this respect. So for a period with 1951 on 1957 production of Taiwan conducting a precise line on import substitution was doubled. However by 1958 country has faced catastrophic falling competitiveness of the processing branches therefore it has been compelled to go on stage-by-stage opening of national economy. By 1961 the Taiwan manufacturers of finished products who asked from government of the trade patronage, should prove, that they were capable to satisfy internal demand for the given product and thus their prices would not exceed the prices of the comparable import goods more than on 25 %. By 1964 this price threshold has been reduced to 15 %, by 1968 - to 10 %, and by 1973 - to 5 %. Such "training" of local commodity producers by increasing pressure on the part of external competitors has resulted to radical changes in structure of the Taiwan gross product and export: from 1954 to 1980 the share of manufactured goods has increased with 10 up to 90 %, and the total amount of export has increased more than in 200 times. For this time the size of gross national product per capita (despite of doubling of its number) has grown five times. Let's especially note: salutary effect of opening of the Taiwan economy which has achieved a certain level of industrialization was that the independent local manufacturers have faced on a home market with a growing competitiveness on the part of external suppliers and have been compelled to appropriate each four years to a new environment. However, as practice shows, to begin policy of most-favoured nation treatment for domestic manufacturers rather easily, but to replace it there is a lot of difficulties because of constantly growing internal pressure every year.

However "import replacing industrialization" is only the policy that limits market mechanisms and a private property, but does not change general principles of economic system. In Soviet Union nobody was going to open economy. On the contrary, desire of "extensive" way to expand demand for specialized production of a planned economy by creation of common economic space of socialist countries

promoted the even greater isolation of their economy from the world market. In result, to 1986 USSR exported only 4.7 % of all production made by a national economy from which 66.8 % fell at a share of socialist countries. Thus raw specialization of the Soviet economy was distinctly traced in structure of export: fuel and the electric power had been given about half of all currency receipts. Thus, traditions of self-sufficiency, the autonomies of national economy incorporated still in imperial Russia, have not been simply saved, but also introduced to more high level.

And in this sense socialism as the economic system, allows to take advantage not simply of short-term benefits of closing of economy, but also considerably to increase greatly them. By this circumstance it is possible to explain the essential successes of a socialist planned economy described above. At the same time, quite logically, that long-term negative consequences for economy in this sense become much more essential, as has showed sad experience of Soviet Union. In the issue, already to the beginning of 1960th when all basic reserves and temporary advantages have been reached negative effects of conducted policy and congenital defects of the Soviet economy on its competitiveness start to find out.

The USSR strongly occupied the first places in the world in power consumption, specific consumption of materials of a national product. On some counts, per unit of end production in the USSR it was spent initial raw material in tens times more, than in the USA and countries of the Western Europe. Accounts of the beginning of 1980th showed, that if it would be possible to reduce half losses and waste products in metal working it would be equivalently increase in production of the most scarce material resources - ferrous metals on 10 %, i.e. approximately by 10 million tons. The non-competitive conditions on a home market resulted to that made production remained constant, foreign analogues in the meantime left far forward. For example, from general park of buses produced in country in 1989 only 0.2 % were answered to world level, only 2.5 % of buses had diesel engines. For comparison we note, that in world practice of that time already 95 % of buses in economically advanced countries were equipped by diesel engines with high fuel profitability. Thus, despite of fictitiously wound speedometer of production of a gross product, on parameters of efficiency of economic system (its competitiveness): growth of a labor efficiency, cost reduction, economies of energy, - Russia lagged behind advanced market countries more and more.

### **Why Russia needs quality of economic growth today?**

In this connection prompt falling of production volumes which was supervised with the beginning of Russian transition to market reforms, is possible to explain not by falling demand, but by low competitiveness which has obviously come to light after opening of economy. In opinion of majority of the modern experts occupied institutional analysis, in the Soviet period the Russian economic system has created the situation with competitiveness of the Russian goods and services which we notice today. Its native born defect was an absence of effective incentives to work and business which the competition can create only (researches of structural changes in the Russian industry have shown, that today low rates of upgrade are stipulated by defect not financial resources, but stimulus of business activity). There were only a raw materials and products of its initial processing competitive, which, furthermore, needed to be made much to fill absence of incentives to their rational use. Except for this arms were

competitive as in this sphere the competitiveness was at a strategic level (on different counts, the military production with allowance for the connected branches constituted from 40 up to 60 % of gross national product at the best resources security).

Modern research results of branch competitiveness allow speaking about rather stable tendencies in development of the Russian economy according to which external competitiveness of Russia is maintained basically by raw material (petroleum, gas and metals). The majority of finished products (except for the weapon) are still noncompetitive in the world markets. Thus competitiveness falls at increase of production processing degree.

Affairs have not too far promoted and in the field of demonopolization of the huge enterprises. The contribution of small and medium enterprises to gross national product of country does not exceed a rod of 10-11 % already long years while in economically advanced states this parameter is more than 50-60 %. And in fact on a level of development of small business it is possible to judge an ability of country to appropriate to varying economic conditions at postindustrial development. Formed with the middle of 70th years of XX century the postindustrial world causes the modern states to search for the new competitive advantages connected to efficiency of productive factors (first of all - human) at cardinally varying individualized demand, more complex configuration of the markets, growing intensity of a competitiveness.

Globalization as new, higher stage of economic internationalization causes growing interdependence of overwhelming majority of countries as a basis of economic prosperity. According to modern estimations, international cooperation-based supplies achieve today 50-60 % of cost of all industrial output of economically advanced countries. In these conditions inevitability of Russian including in the world economy puts questions about competitiveness of the Russian economy on the first place. The problem is that increasing tendencies of interosculation of national and the world markets keep ever less time for reflections. On a basis of low competitiveness of the Russian process industry (low elasticity of the markets of the weapon does basically impossible essential expansion of export of military engineering) and sectors of services (which import in general twice more than export) in modern conditions is not obviously possible to ensure stable and long-term economic growth of Russia.

Thus, today, competitiveness of economy is the qualitative index of national economic growth. And the state economic policy directed on increase of national competitiveness becomes the inevitable answer to calls of postindustrial development with which many countries face today, including Russia.

**Conclusion** Taking into account stated above, it is possible to draw the basic conclusion: rough rates of economic growth of pre-revolutionary Russia, no less than impressing achievements of economy of Soviet Union, have been achieved not due to its high competitiveness, but on the contrary, is extreme at the expense of limitation (or even utter annihilation) activity of competitive forces. Continuing traditions of the independent, self-sufficient system incorporated even in days of imperial Russia, the domestic economy of a period of socialism showed a hypertrophied version received a wide circulation in XX century of policy "import replacing industrialization", described by achievement of high rates of economic growth in extreme deadlines.

However, as practice has evidently enough shown, long-term consequences of the closed, isolated development of a national economy objectively conduct to stable

decrease of competitiveness of production of its manufacturers and, with saturation of a home market, - to decrease of rates of economic growth together with a high degree of the extensive factor. Taking into account a postindustrial vector of global development, competitiveness of national economy it is not becomes simple “the qualitative characteristic”, but also the base necessary and compulsory condition of economic growth of any modern state, wanted to be economically advanced.

At the same time it is necessary to note, that market forces now cannot result to formation in Russia structure of the economy, capable to ensure prosperity of country. Most likely, they will push to binding raw orientation and low growth rates (growth of demand for energy carriers and raw material directly depends of growth rates of economic adjusted for effect of the savings of resources). However traditional variants of state interference by means of industrial policy (branch priorities, state investment, scale tax privileges) by virtue of high variability and uncertainty of points of growth in postindustrial economy are unsuitable. In this connection as the basic directions in the field of increase of competitiveness of the Russian economy with the purpose of the further economic growth the government should make the following:

1. really promote strengthening of a competitiveness, development of “enterprise spirit” in country, define an openness of national economy as a strategic priority, speed up work of the companies to increase their competitiveness;

2. actively integrate into global economic space, encourage cooperation of the Russian companies with advanced global corporations with the purpose of embedding in chains of cost supplement, cooperation with bearers of high technologies;

3. organize monitoring and introduce effective forms of a support of “the competitiveness centers”: the arising and growing competitive companies, especially innovational (without dependence from their branch “belonging”), etc.

Under such conditions that the state policy of competitiveness begins the long-term strategy directed on increase of competitiveness of domestic economy, Russia can expect in new century positive structural changes and ”qualitative” economic growth. We think this conclusion is current not only for the Russian economy.

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