

## Priorities of long-term socio-economic development

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*The report includes four sections: 1) General conditions of socio-economic development; 2) Priorities of long-term socio-economic development; 3) Improvement of institutions; 4) Socio-economic policy. The text of the report is provided with six appendices<sup>1</sup>.*

*The Editorial Board decided to publish the second section of the report in the Journal for the readers’ consideration.*



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The formulation of priorities is a function of political system, which seeks to integrate the views of members of the society concerning public welfare. Sociological surveys of public opinion play an important role in identifying social preferences.

#### **Moral and psychological climate in society and the state priorities**

The future of Russia's economy cannot be designed without regard to the attitude of the country's population to its current condition, and their preference concerning the very future.

The first decade of reforms in the estimates and judgments of people appears as a flop, as the time of disappointed hopes, a series of ill-conceived, ill-coordinated radical measures, which have led, ultimately, to the impoverishment of the vast majority of Russians, and the country has slid significantly backwards with regard to its development.

The second 10-year period of reforms is estimated by the public as a decisive turn of political course to society, to the restoration of constitutional order in the country, bringing it out of the most acute phase of crisis and returning it to the path of sustainable and stable development. According to the assessments of the Russians, Putin's team has succeeded in the following: they have restored the role of the state in the social sphere, reduced the share of the poorest significantly, strengthened the army, raised the international prestige of the country, "soothed" the social pain and a feeling of shame in the mass consciousness for the state of affairs in their Motherland.

At the same time, certain serious problems, as a legacy of the 1990s, remain to this day. This includes pervasive corruption, profound social inequality, a huge gap in income and quality of life between the rich and the poor, moral and ethical decay of the society and large-scale rule skepticism.

The "pendulum" of social feeling has now once again swung back from the "positive" mark to the zero mark, and its further movement

in an undesirable direction is being constrained only by a level of economic and political stability that is relatively acceptable to the population. At that, quite an exceptional public situation has taken shape, we can describe it as "scissor effect", when *along with the increased satisfaction of the majority of the population with their material wellbeing, the critical evaluation of the current situation in the country is growing in the mass consciousness*. It is conditioned mainly by the fact that the growth of financial stability is not accompanied by the improvement of other aspects of the quality of life of people.

The mass consciousness is filled more and more by the spreading feelings of injustice of what is happening, of shame for the scale of corruption, of the dominance of bureaucracy, and of the people's helplessness. This naturally results in mounting aggression among our fellow citizens.

The "foci" of adverse psychological climate in the society are fueled by the significant share (40%) of those who consider their standard of living to be low and who believe that they cannot rely on sickness, old age, unemployment, and disability benefits. The major losses that these people suffered due to the post-Soviet reforms include, primarily, the loss of confidence in the future.

The people's evaluation of their personal situation in the post-reform Russia can be generalized in the ratio of personal gains to losses from the reforms of the last two decades. The share of those who consider that they gained something is very small – only 10%, and it is 2.5-fold less than the share of those who consider themselves to be obvious losers (25%). Another third believes that they have neither won nor lost. Hence the constant question lingering in the "people's agenda" concerns the fact in whose interests the reforms were and are conducted.

Deterioration of social feeling of many of our fellow citizens is to a great extent conditioned by the reduction in opportunities for social

mobility. At present, the Russians almost lack an opportunity of improving their position in the society by changing their place of residence. The rare exceptions can be found, first of all, among those citizens who moved to the village, and also among the citizens moving from big cities to smaller ones.

Cross-settlement mobility is typical of different generations of Russians to a various degree, and, as a rule, people move to another settlement before they are 30. However, at present, though the mobility of young people is high (13% moved to the present place of residence during the last decade in the group of up to 30 years), they still show lower rates of mobility in comparison with the rates of mobility shown by the then young people who are now 40–45. This fact indicates that the potential of mobility of Russian youth is used insufficiently, and that the necessity to import labour force from abroad is dubious under the conditions when *the country already has the significant domestic resource for redistribution of already available workforce*.

The potential of outward migration from Russia is very large, and it has increased significantly over the last 10 years. Today about half the population express their readiness to leave Russia for various purposes, and the share of such people among those aged under 30 is even greater. 13% of the Russians would want to leave the country forever, which is twice more than 10 years ago; another 35% are ready to go abroad to find work. The fact that more than a third of the working Russians are ready to become migrant workers is a telling manifestation of the problems in the Russian labour market; it provides a better understand of the reasons for the discontent of our fellow citizens with the situation in the country.

No doubt, Russia's society is focused on raising the level and quality of life, which should find its powerful driving force in the modernization of national economy. The majority of the Russians consider that high-

tech industries, advanced systems of education, science and culture, modern economic and political institutions are among the key national values. In addition, most of our fellow citizens do not agree that the distribution of benefits and costs with regard to the market reforms carried out in Russia is fair and justified; they count on the formation of a more equitable economic system<sup>2</sup>.

#### **Dynamic growth – the goal and the means**

As noted above, the high level of accumulated socio-economic debt, primarily in infrastructure and public utilities, as well as the high rate of worn-out fixed assets retirement predetermine the lower allowable value of growth rates. It is equal not to 0%, but to 2–3% that are unable to provide the dynamic development of the economy, but they could maintain the current socio-economic situation at the present level. At the same time, it should be understood that the stagnation in the standard of living would mean the failure to fulfill the reasonable expectations of the population concerning its improvement in the near future. Therefore, the decline in the growth rate to 2–3% per year may be acceptable only for a very short period.

Claims concerning the absence of capacity for growth in the Russian economy are suitable only as a weak excuse for maintaining passive economic policy. In this respect, the references to the growth rates of developed countries seem all the more strange. Russia's situation is fundamentally different, and the challenges, that it has to face, are different, as well. In fact, the growth potential is determined by a whole range of factors, the analysis of which shows that Russia's economy in the short and medium term could demonstrate the growth rates

<sup>2</sup> According to opinion polls, 83% of the population believe that the differences in incomes are too large. At the same time, two thirds of the Russians think that the existing system of private property distribution is unfair. A similar share of the population believes that people are not remunerated properly for their skills, abilities and qualification. More than half of the Russians (54%) say the same about themselves, believing that, with regard to their qualification and the difficulty of their labour, they earn significantly less than they deserve.

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that considerably exceed the level of 3–4%, especially if it managed to make efficient use of material, financial and human resources.

First, given the fact that new production capacities were launched in 2009–2012, the load of the key production capacities does not exceed the level of 2007, when Russia's economy showed high rates of economic growth.

Second, the development limitations are often associated with the fact that unemployment is at record low levels, and the amount of labour resources is insufficient for production growth.

Indeed, the shortage of labour resources is the most important constraining factor in the dynamics of economic development on the part of production. Calculations show that if the average productivity growth rates are equal to 4%, then the shortage of workforce will have reached at least 12 million people by 2025. At the same time, if the current employment rate among the population of working age and above working age remains the same, then the domestic resources could by 2025 have even exceeded the need for labour force, if it were possible to ensure the growth in labour productivity at the level of 5.5%–6.5% per year.

The analysis shows that currently the level of the workforce productivity index in Russia is very low (see Appendix 1. Labour productivity in Russia and some foreign countries), because of, among other factors, excessive employment at many enterprises. According to the estimates of RAS Institute of Economic Forecasting, excess employment in relation to the actual production volumes and technologies in the manufacturing industries alone was approximately 2.0 million people in 2012. Thus, the capacity for growth in labour productivity through the use of organizational component in this economic sector alone can be estimated at 15–20%.

Employment policy should also take into account the capacity of positive structural effects. For instance, the introduction of new technologies in agriculture will lead to labour

saving and to a new wave of urbanization. The second wave will be “small towns – large agglomerations”. On average, labour productivity at enterprises within an agglomeration is 46% higher than in settlements outside it. It is necessary to use these trends for creating new “points of growth” in Siberia and the Far East.

The issue of providing the economy with necessary labour resources should be handled by carrying out sound policies aimed at attracting labour force in the country. In addition, the government should conduct active social policy and employment policy for the maximum mobilization of internal reserves of labour supply. They include the following: the increase in the share of employment among the disabled; the increase in the share of employment among the people of retirement age; the reduction in the level of mortality in working age; counteraction against drug addiction and alcoholism; reduction in the number of administrative machinery officials, first of all, in supervisory bodies, and the RF Ministry of the Interior; the expansion of distance employment, etc. According to the estimates, these measures will allow the economy to get about 5 million workers.

In general, under the sound state policy in promoting the growth of labour productivity and employment, there is an opportunity to replace the forecasted workforce shortage by domestic human resources, gradually reducing the share of low-skilled foreign workers.

Third, the capacity for economic growth is determined by the opportunities for the increase in demand.

In this regard, there are some limits in the field of external demand. Moreover, it concerns not only the current contraction in demand in the post-crisis period, but also a more fundamental trend that is relatively independent of the phase of economic cycle and long-term growth rates of the global economy (see Appendix 2. External demand constraints on economic growth).

At the same time, such constraints with regard to the consumer and, especially, investment demand are simply absent in the short and medium term.

Investment demand is not just an opportunity to increase capital investment in the development of infrastructure and renovation of production. The increase in investment activity is the key element of economic dynamics, as it allows several goals to be achieved: to expand production capacities; to enhance the efficiency of production and, finally, to remove infrastructural constraints on development.

There is no alternative to the increase in investment activity for the next few years. Otherwise no institutional reforms will be able to return the lost dynamism of development into the economy; and the growth of limitations will make it impossible to respond consistently to emerging challenges, which will lead eventually to a new round of financial constraints and the final stalling economy on a path of inertial growth of GDP by 1–3% per year.

Note that the current characteristics of economic dynamics are also an important indicator of investment climate. From the viewpoint of an investor, the sustainable high growth rates of an industry demonstrate the significant potential of growth in demand for the goods, the demand for the products of related sectors, and a favourable price situation in the given market. This significantly reduces investment risks, enhances the opportunities for borrowing the necessary financial resources, and reduces the payback period of the projects.

The increase in average annual GDP growth rate of 6–7% in the medium term (up to 2020) is a fundamental prerequisite stimulating investment and innovation processes, which will make it possible to maintain high growth rates in the next 10–15 years.

Fourthly, Russia possesses considerable space for quantitative and qualitative growth. Under the space for growth we mean not the

geographical area, but the economic concept associated with the concept of saturation. Our country is still very far from the saturation of basic needs: the level of housing availability, and provision with light motor vehicles in Russia is 3–4 times lower than in developed countries; the level of provision with durable goods is significantly lower; the lag in the level of development of transport infrastructure is huge; there also remains a significant gap in consumption of some of the major kinds of foodstuffs. The development of the huge Russian territory also defines a very significant potential of economic growth.

Fifthly, in today's Russia there are no serious resource constraints on the volume of investments: due to the high saving rate, the accumulation rate in the country's GDP can be increased without reducing the level of consumption. For example, in 2006–2012, savings rate was on average 30% of GDP, while accumulation rate was only about 20%.

Table 1 presents an assessment of the potential for economic growth in Russia for the period up to 2030. According to the assessments, the greatest potential for growth is observed in 2013–2020, and it is based mainly on investment and consumer demand. A key conclusion is that the available opportunities for development allow Russia's economy to achieve the average annual GDP growth rate exceeding 5% in the 2013–2030 period.

Development prospects for Russia's economy in the coming decades can be illustrated using scenario forecast calculations.

When elaborating the constructive scenario for socio-economic development, it is proposed to implement certain activities that make it possible to use the existing potential for economic growth to the greatest extent. A constituting sign of a constructive, internally oriented investment scenario consists in the high rates of economic growth, which, in turn, are crucially associated with the dynamics of investment and efficiency of their use.

The inertia scenario is considered as opposed to the constructive scenario, their comparison makes it possible to evaluate the efficiency of the measures implemented within the framework of internally oriented investment scenario.

The scale of Russia's economy, the demands of the society that remain unsatisfied, along with considerable resource provision and rather well-developed industry are a good base for economic growth. However, in the absence of targeted economic policy aimed at achieving the strategic goals of economic development, such growth can only be inertial in its nature.

The gradual growth in constrains associated with the number of working-age population, the condition of infrastructure, and availability of natural resources will lead to reduction in economic growth rates and preservation of the existing structure of the economy and it will also maintain the key structural and spatial imbalances in development.

The factors that will exert crucial impact on economic performance in the inertia scenario, should include the following:

- inevitable reduction in the number of working-age population in the 2012–2020 period, constraining the opportunities for the development of labour intensive sectors of the economy;
- impossibility of significant growth in production and exports of natural resources

under the existing and prospective levels of capital intensity and tax burden;

- high dependence of economic dynamics on external conditions;
- growing demands for the increase in public investment in infrastructure development and defense industries; the growing burden on the budget in this connection;
- outrunning rates of consumer and investment demand with regard to the domestic production capacities;
- increase in the share of import on the domestic market;
- lack of efficient mechanisms of capital flow that impedes the modernization of production base.

Within the framework of listed constraints, the available resources can be focused on only a very narrow range of development objectives. Among such objectives we can point out the priority development of transport and energy infrastructure; support to raw materials sector; the development of individual enclaves of manufacturing industry that are often isolated from the rest of the economy.

If this scenario is implemented, the average growth rate of GDP in 2011–2030 will amount to 2.9%.

It should be noted that import will have a significant deterrent effect on economic growth during the whole forecast period; and its negative impact on economic dynamics will

Table 1. Assessment of the potential for economic growth in Russia, %

Indicator	2013–2015	2016–2020	2021–2025	2026–2030
Gross domestic product	6.1	7.0	4.6	4.1
Including:				
Final consumption expenditure:	6.0	5.2	4.4	4.0
of households	7.0	6.2	5.1	4.5
of state administration	3.4	2.0	1.5	1.5
nonprofit organizations, rendering services to households	1.8	1.0	0.5	0.5
Gross accumulation	13.9	11.2	4.6	3.2
including fixed capital	11.6	11.6	4.6	3.1
Export	2.1	3.3	4.1	4.6
Import	9.7	5.9	3.4	2.5

exceed the positive impact of investments in fixed capital. This result can be explained primarily due to the fact that the inertia scenario cannot provide the necessary volume of production of competitive goods for investment purposes in the condition of the increase in the fixed capital accumulation rate.

The share of investments in GDP gradually increases during the whole forecast period, but it will not exceed 26%. This is explained by the remaining shortage of financial resources in the production sector, especially in manufacturing industries, in the absence of satisfactory mechanisms that ensure proper access to loans.

Realization of the inertia option with a limited set of development guidelines implies the outrunning rates of production in the services sectors and industries focused on the satisfaction of consumer demand. As for high-tech and medium-tech industries, their development, despite the fact that it is more rapid in comparison with the economy's pace, does not allow their share to be increased significantly in the total production. The mining sector in the period after 2020 faces the problem of resources depletion in traditional mining regions against the background of the appreciation of capital expenses when new deposits are being developed (in the shelf, as well).

The production structure has undergone minimal changes, connected with the reduction of the share of mineral resources in the gross output (to 4% by 2030) and low-tech manufacturing sectors that the forecast period show the limitations explained by the saturation of domestic demand.

The structure of Russia's export is still dominated by natural resources. If the structure of exports remains the same, it will not allow Russia to increase its share substantially in the world trade in the 2012–2030 period. Export of high-tech products will remain low, and will not have exceeded 4% of the total export of goods by the end of the forecast period.

Relatively low rates of production growth in the sectors of investment complex along with the outrunning growth of investment in fixed capital will lead to the increase in the share of imports in the domestic market. The share of imports may grow most significantly in manufacturing sectors, communication and telecommunication complex. The share of imports by 2030 will have reached 65% in the market of high-tech goods, and 50% in the market of medium-tech industries.

The structure of investments in fixed capital against the background of the increase in capital intensity will experience the increase in the share of mining sectors. Under the relatively low rates of economic growth, the economy will have limited opportunities for attracting financial resources. The main flows of investments in fixed capital are concentrated in the sectors of traditional export and in a limited list of state-financed productions.

The increase in accumulation rate in the economy and the improvement of production efficiency will lead to the enhancement of labour resources usage. Labour productivity in high-tech sectors is increases in 2.5 times; in agriculture – in 3.4 times; in trade – in 3.5 times; in finance and insurance – in 2.5 times. The total number of people employed in the economy will have amounted to 64 million by 2030, or 95% in comparison with the 2011 level.

According to the inertia scenario, by the end of the forecast period, Russia will not be able to carry out cardinal changes in its economy and increase the potential for further development. Most of economic growth factors have decaying nature. The rise in the efficiency of production will be significant, but it will not provide the necessary increase in the level of competitiveness in the conditions of global economic competition. GDP per capita by 2030 is estimated (in current prices) at approximately 36 thousand US dollars, that, with a minimal estimates of GDP per capita in the USA for this period (100 thousand US dollars) does not imply a

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further reduction of the gap in the standard of living with developed countries.

The “internally oriented investment scenario” provides for the maximum use of the available potential for economic growth.

Key risks in the implementation of this scenario consist in the following: in order to maintain the high rates of economic growth in the period until 2020, it is necessary not only to ensure the growth of investment and consumer demand, but also to find (based on the development of domestic production) resources for the expansion of exports in the second half of the forecast period. Existing possibilities for acceleration of economic dynamics in this scenario are implemented through active measures of economic policy. The main ones are as follows:

- intensification in the first part of the forecast period (until 2020) of all the capacities for the growth of investments in fixed capital (at the expense of public, private, foreign sources). The achievement, by 2020, of nearly 35 percent of the standard of capital accumulation;

- realization in the period up to 2020 of the programme for the revival of investment machine building on the principles of establishing new domestic productions, and on the principles of establishing industrial assembly productions. Provision of the growth rates of production of investment goods, outrunning the growth rates of the domestic market of such products;

- increase of production capacities in the infrastructure and road construction in the period up to 2020;

- implementation of projects for maintaining and expanding the volumes of extraction, production and transportation of raw materials;

- attraction of financial resources into research and development in order to enhance the competitiveness of manufacturing sector and further increase the volume of commodity exports.

By implementing the set of measures to stimulate economic growth in the internally oriented investment option it is possible to achieve the average GDP growth rate of 5.1% in the forecast period.

The highest average rates of GDP growth (7%) are expected in 2016–2020, this period which accounts for the peak of investment and consumer demand. It is followed by a smooth slowdown in economic dynamics associated with the achievement of the high indicators of investment activity, overcoming the most acute constraints on the capital, as well as the saturation according to several items in consumer demand. Export makes significant contribution to the overall GDP growth (especially in the period after 2020). In comparison with the inertia scenario, its growth rates in the forecast period increase more than twice and by the end of the forecast period exceed the GDP dynamics. The import growth rates in this scenario, due to the increasing competitiveness of domestic goods and import substitution, are even lower than in the inertia scenario.

Household consumption makes the greatest contribution to the overall GDP growth. After 2020, economic dynamics will be influenced significantly by the expansion of export, primarily of non-raw material goods, and import substitution processes.

The investment nature of the scenario assumes the achievement of high indicators of growth in production efficiency. In particular, the GDP energy intensity in this scenario by 2030 is only 44% of the 2010 level, and electric intensity is 66%. A slower decrease in electric intensity is explained by the increased share of electricity consumption by the population under its simultaneous decrease in industry and services sector. Investment activity, creation of new productions in the industry contribute to the significant growth of labour productivity, which in comparison with 2010 is increasing by more than 2.7 times.



In the Russian economy the highest growth rate of production is typical of such branches as high- and medium-tech sectors, construction, real estate transactions, finance and insurance. Significant capital investments make it possible to maintain the positive dynamics in mining operations during the whole forecast period. It is also necessary to point out high dynamics in the research and development sector. The relatively low rate of production growth is observed in low-tech manufacturing industries.

By the end of the forecast period, the cumulative share of high-tech industries and medium-tech industries of the high level in gross output increases to 14.5% (8.5% in 2010). The share of trade in gross output is changed insignificantly and is equal to 17% in 2030.

By 2030, up to 20% of the overall increase in gross output of the economy is provided by high-tech industries and medium-tech industries of the high level (in the inertia option their contribution does not exceed 12%).

A key element of the scenario is found in the high level of investment activity. In particular, the average growth rates of fixed capital investment in the high-tech sector throughout the forecast period exceed 15%, in construction – 9%, in medium-tech manufacturing sectors – 8%, in finance and insurance – 8%, in hotel and restaurant sectors and in trade – 7%.

By the end of the forecast period, the structure of investments in fixed capital will be dominated by extraction of mineral resources (13%), transport and storage (15%), construction and real estate transactions (23%). On the whole, the scenario provides an outrunning renewal of production capacities and creation of new productions in the investment complex along with the maintenance of the high level of investments in extractive sectors.

The implementation of the internally oriented investment scenario results in a new quality of the structure of the Russian economy, which, on the one hand, has significant

resource potential (oil production will be over 530 million tons by 2030), and on the other hand, can increase export by modernizing the investment complex and creating a new hi-tech complex.

One of the key characteristics in the implementation of the internally oriented investment scenario is the large-scale import substitution, which, despite the substantial growth in investment and consumer demand, makes it possible to reduce the share of import in the domestic market to the level of post-crisis indicators of 2010. At that, during the period of increasing the accumulation rate of GDP (up to 2020), the share of import continues to increase against the background of production modernization and purchase of new equipment. However, further on, the opportunities of the industry allow the needs of the domestic economy to be satisfied, and the share of imports in the domestic market to be reduced gradually. In particular, the share of import in the market of high-tech goods is decreasing from 62 to 55%, in the market of medium-tech goods of the high level of processing – from 42 to 36%.

The enhancement of competitiveness of domestic manufacturing industry in this scenario is the basis for the increase in exports of high-tech and medium-tech products of the high level, especially in the second half of the forecast period. By 2030, the share of these industries can account for 21% of Russia's total exports; at that, the share of mineral resources is reduced to 15%.

The increase in the efficiency of labour resources usage is an important element of the scenario.

Cumulative employment at the end of the forecast period is only a bit higher than in 2010, despite the significantly higher (in comparison with the inertia option) growth rates of GDP. At that, we can observe the increase in the number of the employed in the high-technology sector, construction, transport, hotels and restaurants.

Trade has the greatest potential for reducing the number of employed people. The budgetary sectors witness a smooth decrease in the number of the people employed in education at the simultaneous increase in the employment in health care. The increase in the investments in science determines the growth of employment in the research and development sector.

The change in the labour resources usage efficiency has significant influence on employment structure. Labour productivity grows most rapidly in high-tech industries (in 4.3 times), trade (in 3.6 times), medium-tech industries of the high level (in 3.4 times), finance and insurance (in 3 times).

Thus, the implementation of the internally oriented investment scenario makes it possible to use the development potential, available in the Russian economy, to the greatest extent. At that, consistent increase in investments

in fixed assets, modernization of investment sector, increase in production efficiency and import substitution make it possible in the second phase of the forecast period to shift to the strategy of increasing the volumes of non-primary export, which expands the opportunities for the Russian economy beyond 2030.

In conclusion, firstly, let us give a comparative evaluation of the main macroeconomic indicators characterizing the two considered scenarios of the development of Russia's economy for the period up to 2030 (see tab. 2).

Secondly, it is necessary to note the following: due to the fact that, as of mid-2013, the efficient measures, mentioned above, had not been implemented, the actual growth rates of the economy in the first half of this year were even lower than the growth of the GDP dynamics according to the inertia scenario.

Table 2. Key parameters for the development of Russia's economy at the realization of the inertia and internally oriented investment scenarios

Indicator/period (years)	2006–2010	2011–2015	2016–2020	2021–2025	2026–2030
<b>GDP dynamics, %</b>					
Internally oriented investment scenario	2.3	5.8	7.0	4.3	3.6
Inertia scenario		3.8	3.1	2.5	2.1
<b>Dynamics of gross output, %</b>					
Internally oriented investment scenario	2.4	4.9	6.3	4.0	3.8
Inertia scenario		3.5	2.9	2.7	2.7
Indicator/year	2010	2015	2020	2025	2030
<b>Labour productivity, times</b>					
Internally oriented investment scenario	1	1.44	2.01	2.40	2.76
Inertia scenario		1.33	1.62	1.83	2.00
<b>Energy intensity, times</b>					
Internally oriented investment scenario	1	0.81	0.66	0.57	0.49
Inertia scenario		0.84	0.73	0.64	0.57
<b>Accumulation rate, % GDP</b>					
Internally oriented investment scenario	21.9	25.9	35.0	31.2	28.9
Inertia scenario		23.0	24.8	25.7	25.5
<b>Share of import in the domestic market, %</b>					
Internally oriented investment scenario	15.4	16.1	15.9	14.8	14.4
Inertia scenario		16.8	17.9	18.9	19.8
<b>GDP per capita, thousand US dollars in current prices</b>					
Internally oriented investment scenario	10.5	17.6	24.4	32.4	54.0
Inertia scenario		16.9	21.2	26.1	36.0

### Competitiveness of the economy

The task of improving the competitive dynamics of the economy not related directly to the rate of growth of GDP or industrial production is as important as the promotion of economic dynamics. The enhancement of competitiveness implies the following activities: reduction of costs and establishment of production of new unique marketable products, and, at the same time, the shutdown of inefficient industries. That is why finding a solution to both of these tasks will promote the transition to quality, long-term growth and the cardinal enhancement of the population's standard of living.

The actual competitiveness of Russia's economy exceeds the estimates of some international research centres, first of all, those regularly published by the World Economic Forum, according to which Russia ranked 66th by the level of global competitiveness in 2011–2012. The calculations of the International Institute for Management Development (Lausanne) are viewed as more objective, it puts Russia on the 44th place in the competitiveness rating. As for the ratings of international consulting and audit companies, then, for example, Deloitte & Touche has put Russia on the 20th place according to the index of competitiveness of the manufacturing industry. According to the estimates of Ernst & Young, Russia's attractiveness for foreign investors, since 2005, has increased significantly. 75% of foreign companies pointed out the capacity of the internal market as the main positive factor, 69% pointed out Russia's telecommunications structure.

The similar share of companies are satisfied with the level of labour costs and qualification of the workforce, and the capacity for productivity growth. Although by the level of labour productivity (output per one employee) Russia's lagging behind the most developed countries of the world is greater than it was

in the Soviet period (see Appendix 1. Labour productivity in Russia and some foreign countries), the country is almost three times ahead of the other BRICS states, including China.

Natural resources constitute the most significant competitive advantage of Russia: it possesses almost 6% of world reserves of oil, 24% – of natural gas, 8% of the world reserves of fresh water and arable land, 23% – of the forest land. Another competitive advantage is the receptive domestic market. Russia ranks 6th in the world according to this indicator. By the domestic market growth rates, Russia is ahead of all other countries, including India and Brazil, and it is second only to China. At the same time, Russia is characterized by the high level of population's savings.

Russia's geographical position, though it is not so advantageous than that of the USSR (in 1991 we lost the Baltic and Black sea ports – Riga, Klaipėda, Odessa), but it remains potentially good. External markets, which are geographically close to Russia, account for 36% of the world's GDP.

Another competitive advantage of Russia is connected with education; according to the level of education, Russia ranks 25th in the world among 139 countries, well ahead of Brazil (51st place), China (96th place) and India (108th place). The share of employees with higher education in our country is one of the highest in the world (after the USA), and the share of employees that have only primary education is only 7% against 10% in the USA, 11% in Estonia, 18% in Germany and 27% in France.

By the number of the largest companies capable of carrying out global functions, and by the degree of their capitalization, Russia lags significantly behind the advanced countries, primarily from the USA and China, but in general it ranks 11th, ahead of such countries as Sweden, Finland, Denmark and Singapore.

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## APPENDICES

### **Appendix 1. Labour productivity in Russia and some foreign countries**

The level of labour productivity in Russia is 26.8% of that in the United States of America, 40% of that in Japan and Germany, 33.3% of that in France, 36% of that in Sweden. Russia lags behind a number of former Soviet republics, such as Armenia, Belarus, Estonia, Latvia, Lithuania, Kazakhstan. According to the labour productivity growth rate, Russia lags behind its BRIC partners. According to Rosstat, in 2010, labour productivity in the economy as a whole increased by 3%, while in China this figure was 8.5%, in India – 5.5%, in Brazil – 4%.

The enormous lagging behind developed countries by the indicators of labour productivity is currently observed in all the sectors of the economy: the lag is 3–4 times in relatively prosperous oil and gas industries, chemical and metallurgical complex, trade and banking sector; however, the lag in agriculture is 10–12 times. Modernization and technological re-equipment of production facilities can increase labour productivity by an average of three to five times. These indicators are observed in all the industries. A telling example of the potential for such growth can be found in the differentiation between enterprises within industries, ranging from 5 times in engineering to 13 times in metallurgy.

### **Appendix 2. External demand constraints on economic growth**

Slow dynamics of the external demand for major goods of Russian export is a major constraint on Russia's economic growth. At that, we mean not only the current contraction in demand in the post-crisis period, but also a more fundamental trend that is relatively independent of the phase of the economic cycle and long-term growth rates in the global economy.

Since 2006 developed countries have been reducing the absolute volumes of oil consumption. This trend is of long-term character: the reduction takes place when GDP is reducing and when it is growing as well; what changes is the speed of reduction, and the differences between the countries are preserved. Economic growth is accompanied by the increase in their efficiency not only in developed countries but also in the largest emerging economies: China, India, and Brazil. An especially rapid decrease is observed in the specific consumption of energy resources, and in energy intensity of GDP.

Thus, the global economy will need much less oil than it seemed just a few years ago. On the other hand, the supply of oil will grow. So far, the OPEC nations, using quotas on oil production, are capable of restraining growth in the supply, and they maintain such a balance between demand and supply, which secures the current level of prices. However, if the production outside OPEC and in Iraq (to which the production quotas do not extend) increases and global demand slows down, it is very likely that the balance between demand and supply will be established on a completely different and much lower price level.

Natural gas consumption in the world will grow twice faster than oil consumption – by about 1.5% per year. The single global gas market has already started to form; it is based technologically on liquefied gas, the share of which in 2020 will make up to 50% of world trade. The main characteristics of this market will be as follows: (a) adequate supply to meet import demand; (b) the possibility of choosing the provider; (c) pricing that is independent of the prices for petroleum products, and that complies with supply-demand ratio. In these conditions gas trade will be based on the same principles as any other commodity market: the conclusion of long-term contracts on supplies; as for prices, they will be determined by market conditions at the time of delivery. Such a single global gas market will be formed within the next few years.