

FOCAL MODERNIZATION HAS NO CHANCE TO SUCCEED

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The World Bank did lots of research on industrial policy strategies in numerous different countries. The results of the analysis show that **successful industrial development is based on horizontal industrial policy. That is when commercial opportunities become easier and more favorable for everyone.** This can be reached through constitutional reforms, combating corruption and bureaucracy, and developing an independent judiciary system. The alternative is a **vertical industrial policy**, when a state invests in building new plants and factories, while companies focus on making constitutional changes. Global

experience shows that all the examples of successful industrial development used an active horizontal industrial policy. No country that was willing to limit itself to a vertical industrial policy, succeeded. Despite the building of new plants, their economy failed to progress.

One should not rely on the development of nano-technologies for things like transport, communication, cement production, or milk production. Governments ought to provide conditions favorable for different economic spheres at the same time. In this case, some spheres will achieve a breakthrough inevitably, but it is impossible to predict their outcome. As a rule, the government's task in regards to investment is to make business in some sectors a little more beneficial through subsidiaries or other methods. Through this strategy, it can gain greater control over the course of economic development. The obvious problem is that the current Russian government is trying to realise a scenario that simultaneously aims to raise five to seven economic sectors at once instead of the overall improvement of conditions for business development, and such a strategy has never had much success.

China has utilized a horizontal industrial policy. In special, free economic zones, horizontal improvements were realized and a liberal management regime was provided. It was said that these areas were open to all capital and could carry any business. Importantly, this policy led to jobs and salaries for individuals. After a decade of such a policy, liberal

economic legislation started to spread over the entire economy, save for some state companies that suffered significant problems.

In China, the authoritarian political system with a dominant Communist Party did not spread its power over the free economic areas. These areas were free of severe ideology, the Communist Party did not appoint the heads of the enterprises, and it did not decide which sectors should be advanced. Modernization started exactly in these regions free of the power of the Communist Party of China. Today, the power of the party is still being reduced in the economy, and for activities on a business level, it is almost entirely absent. Generally, it appears to me that **it is incorrect to say that authoritarianism exists in China. China is more similar to an oriental meritocracy.** In comparison with China, Singapore or Malaysia are much more authoritarian.

There is a dramatic difference between Russia and China, and between Russia and Brazil. In Brazil, and especially in China, industrialization is occurring mostly through the creation of an industrial basis. On the one hand, Russia has already passed through this stage. On the other hand, the country's economy is rapidly de-industrializing, since many sectors cannot compete with the outside world. During the course of industrial development **a special feature of our manpower has become obvious: Russia has an excessive capability for creative solutions and a low tolerance for monotonous and routine work.** Such people are precisely what is needed as a driving force of modernization. However, just because their activity often does not

require plants and machines, they can still dwell in one country while selling their products in another. One can develop a code for a program in Bangalore, or in Dubna, or in the Silicon Valley and sell it globally. Creative people live wherever they like and if an authoritarian regime of tough or mild types cramp their work, they will simply leave.

There are two scenarios for further development. The first is that a reasonable statesman offers to produce energy-saving lamps, for example, and compete with China. Obviously, energy-saving lamps have already been invented and we cannot do this again. Moreover, it's absolutely clear that China will be able to do it for cheaper. To go through with this proposal would be a mistake. Another proposition is to create opportunities for business development in Russia. That is to say, to allow business itself find its own basis. Conventionally speaking, somebody will invent an energy-saving lamp that will reduce energy consumption by five times. Moreover, due to the attraction of capital that employs intellectual resources to solve the problems, new marketable goods will appear. There is no other way.

Neither in America, nor in China, nor in Brazil does the government rule industrial companies and force them to produce something, except in the case of the defense industry. These governments never aim for scientific technical developments. And while they are prepared to subsidize researchers in the field of, say, energy-saving, the results are never easy to predict.

Focal modernization has no chances of success. The amount of resources the Russian economy and society will spend on attempts to create 'a sun-city' will just add us to the list of countries that have already fallen into such a trap. It will cost us considerable time and vast financial resources. Perhaps it will result in the construction of some plants, but the country will still be behind. While there have been plenty of successful non-focal modernizations, such as in Chile, China, Brazil, Poland, Indonesia, Malaysia, Thailand, Vietnam, there have never been any episodes of successful focal modernization. ■

Exclusively for Russian Institute

PROGRESS ON THE BLACK SEA REPRESENTS SERIOUS POLITICAL PROGRESS



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Despite the fact that the Black Sea region has ceased being a sore point in terms of world politics, as was the case a century ago, it still remains a region of enormous importance. Let's take the conflict between Georgia and Russia as a case in point. There remains a risk that the conflict will continue. It is also worth bringing up the situation with respect to Ukraine. **It is unlikely that the recently-signed agreement with Russia has diminished the many years of tension between the countries.** Instead, it might have worsened this situation. Just imagine what might happen now in this country as a result of the enormous divisions and antagonisms that exist regarding the Black Sea fleet in Sevastopol. What will happen if the opposition should eventually come to power in Ukraine and try to rescind the new agreement about the extension of the term for renting the base for the Black Sea fleet. Such a scenario may even be interpreted by Moscow as a *casus belli*.

On top of that, another ever-growing issue which is of increasing importance is the supply of oil, since the Black Sea is a critical zone of the transit of such energy resources. In this context, this is a region that is very important, and it has arguably become more important over the past decade.

The Black Sea still remains a border for the European

Union, but the EU also participates in the politics surrounding this region. Indeed, one must not forget that both Bulgaria and Romania are manifestly Black Sea countries in the most literal, geographical sense, are that they are members not only of the European Union, but of NATO. Romania puts forward a very clear definition of EU and NATO interests, and, on many key points, its perspective differs quite substantially from the regional perspective of a powerhouse like Russia, for instance. It should be kept in mind that the EU remains to be highly attractive for countries that have not yet become members of this union. The EU also has a number of explicit initiatives and programs specific to the Black Sea region.

To this day, the Black Sea continues to be a potential zone for emerging conflicts and the EU will not be able to sideline such a situation. Let's keep in mind that there exists serious conflicts in areas that are in close proximity to this region. The current war in Iraq and the potential for future conflict with Iran may result in profound changes in this region. The war in Iraq has effectively led to the radicalisation of Turkey. Thus, there is a strong chance that the development of other external developments that are on the periphery of the Black Sea region may profoundly affect the balance of forces within this region itself. ■