



## International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournals.com>

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Volume 15 • Number 23 • 2017

## Problems of the Development of Russian Economy in the Modern World

Eugene A. Danchikov<sup>1</sup>, Maria A. Gureva<sup>2</sup>, Yuliya S. Polozhentseva<sup>3</sup>,  
Eleonora M. Chernenko<sup>4</sup> and Viktor E. Varavenko<sup>5,6\*</sup>

<sup>1</sup> Plekhanov Russian University of Economics, Moscow, Russian Federation

<sup>2</sup> Tyumen Industrial University, Tyumen, Russian Federation

<sup>3</sup> Southwest State University, Kursk, Russian Federation

<sup>4</sup> Kuban State Technological University, Krasnodar, Russian Federation

<sup>5</sup> Vladivostok State University of Economics and Service, Vladivostok, Russian Federation

<sup>6</sup> Law Clinic Co. Ltd., Vladivostok, Russian Federation

\* E-mail: [venaravenko@gmail.com](mailto:venaravenko@gmail.com)

**Abstract:** The formation and development of the economic system in Russia has been rather difficult, because it reflects the multidimensional nature of the problems and contradictions it has confronted with: geographical location, tough climate, mentality of the people inhabiting this territory, ethnic diversity, patterns of historical development, and many other factors that relate to the centuries of development of the Russian State. Issues that are linked to the formation of the country's economic policy and the main trends of its development could not fail to relate to the historic period, the moment of transition from the economy of planned control and regulation to market relations, which have always been, are and will be the main precondition for the stability of the State, both in the global market and in the outside structure of resource allocation, the conquest of the market space and solution of the problems of economic relations. The main directions of the development of market space and the economic system of the State are largely dependent on its foreign policy and its interaction with major trading countries and organizations, from the general state of the world economy, from the rational use and distribution of natural resources, as well as innovation programs and scientific-technical progress.

**Keywords:** economy, market, State, investment, social needs, innovative development, modernization, competitiveness, national economy

**JEL Classification:** O10, A11, I25, O29

## INTRODUCTION

Over the past decades, the economy of Russia and the international community has undergone qualitative changes, primarily concerned with globalization, uneven formation, increasing rivalry between forming poles of the multipolar world, as well as competition between countries, developing against the background of political interactions.

Currently, in the policy of economic development of the State, competitive positions become conditions for sustainable and permanent improvement of the economy, wise decision-making and solving problems it faces on the market.

Stable development of the domestic economy, which is in the system of interrelations with the economic entities of the state, is directly dependent on the social, economic, scientific, technological, and other potentials; they to some extent determine the attractiveness of the economy for the deployment of new industries, business and financial resources (Burawoy, 1996; Silnov, 2016).

In the conditions of the continuing progress of economy, improvement of market relations and perception of the market as a universal value, the main advantage of any activity of the State is determined by the competitiveness of its producers, both independent and connected with foreign investors.

The formation of the country's development policies for its regions, provinces and territories depends on the market system and primarily on the competition of enterprises in the external system and the global market (Shkurkin *et al.*, 2017).

Our State currently has a monetary economy with the hired labor, which has some limitations. Despite the transition to market economy, our system is still not guided by market agreement. The presence of financial relations without financial market and poorly controlled property rights does not allow to categorize Russian economy as capitalist economy, even monopolistic.

On the contrary, it can be said that this economic system with the financial oligarchy is at the stage of initial accumulation of assets and capital.

Consequently, the main problem of the national economy is the formation of a market economy, in other words, the realization of market agreement.

The regularity of the distribution of the price indicator indicates the lack of a common market. The difficulty to establish market agreement reflects the specificity of the Russian State, or separates the post-Soviet 'the first world' from the global economy, 'the second world'.

Therefore, the main goal of the development and establishment of the national economy is modernization of its structure, which will should reflect the main objectives of the national formation of the country. The economic market and the system as a whole must reject the raw material pattern of formation, which was stressed by the President in his message to the Federal Assembly.

The economy of the Russian Federation must become innovative, scientific, modern and developed in all its directions and sectors in accordance with the global standards; it must use its full potential in order to get rid of its main dependency - oil and gas.

## **MATERIALS AND METHODS**

The theoretical and methodological basis of the article are the classical works and current publications in the field of the development of the domestic economy in the modern market, understanding of potentials of economic sectors as a factor of increasing the competitiveness of the state as a whole against the background of the world market, development of the economy as a competitive production center, the research of domestic and foreign scientists.

The research methodology is based on the dialectical method, system and strategic approaches to the analyzed objects. Scientific provisions, conclusions and recommendations made in the article are founded on the use of combined methods of historical and logical analysis, comparison and synthesis, induction and deduction, economic-statistical method and expert assessments.

The information base of the research is comprised of the laws of the Russian Federation, official publications of state statistics, publications of the International Labor Organization, collections and directories, information published in scientific journals and periodicals, resources of the Internet.

In writing this article, we considered the data characterizing the development tendencies of the Russian economy in the current conditions as well as the trends in the formation of the state economy, introduction of innovations of the state and foreign investors, marketing research of both external and internal markets, analysis of the main competitors – a new generation of producers of new modernized technologies.

## **DISCUSSION**

Many experts and political scientists have recently drawn a conclusion that the economy of Russia will soon undergo another crisis, the consequences of which will lead to the complete destruction of the Russian economy and its interests in the world market. All negative trends in the development of our state have been forming over several decades. The main reason for the appearance of these trends is the inadequate reaction to the changes of the conditions of production process and the rules for the implementation of scientific and technological progress. The main policy of our state is aimed at identifying and implementing the main ways to curb the decline in production, which entails large expenses of supporting the fuel and energy sectors, attracting new, previously unused resources in the production process, with their subsequent irrational application (Shumakov, Troitskiy & Silnov, 2017). Because of this policy, the following negative trends became evident: depreciation of fixed assets, a decrease in labor productivity, deterioration of the quality of produces goods, a negative impact on the ecological system, etc.

Constantly emerging issues in the formation of the economy of our state affect the period of transition of the economy from planned control and regulation to market relations of economic entities, which in their turn are the main criterion for setting the general foundations for both internal and external stability of Russia.

Modern characteristics and analysis of the development of the domestic economy directly depend on the features of planned economy, as the initial point of the domestic economy at the start of market reforms. We also should not forget that the economic structure of the Soviet Union carried out its activities until Perestroika without having any significant changes in its overall development program.

The main mechanisms for implementing the country's economic policy were the five-year and annual plans. These development program, the so-called planned economy system, was based on the idea that for each type of product the plan was achieved or, better still, overachieved, then the demand and supply will reach a balance (Sergeevich & Vladimirovich, 2015).

This policy allowed the leaders of the Soviet era to distribute resources efficiently and rationally during the global crises with the least losses. This is also reflected in the rapid restoration of the economy of the state after the Second World War and the subsequent transformation of the Soviet Union into a leading world power.

However, such positive dynamics in the development of the economy, the rational allocation of resources and the implementation of reforms in a crisis was not applicable to the policy of economic reforms of the 1990s. The policy of Mikhail Gorbachev on the transformation of the economic system in Russia (1985-1991) reflected the complexity of the transition to the market.

Boris Yeltsin's absurd actions at the stage of building capitalism also had their negative impact on the development of the national economy: the unfair privatization, state support of imports, rejection of protectionism, attraction of foreign capital to absorb domestic businesses – all these steps led to the collapse and disintegration of the strongest power and to the dependence of the state on the foreign partner (Frye, 2002; Streltsov & Vlasova, 2004).

This policy destroyed the entire production potential of the Russian Federation. The production of some categories of goods was stopped or eliminated, massive poverty became commonplace, the black market and illegal trade flourished. The consequences of that have not been overcome to this day.

It can be stated that during the presidency of Boris Yeltsin, the foundation of the new system of the state economy was laid, which in parts has survived to this day, and which is inefficient and vulnerable to external factors, and is socially unjust.

This is manifested in the fact that despite the independence of the Russian economy, and its huge scientific and innovative potential, it still has numerous problems that hinder its development.

The main directions in the development of the economy of our state directly depend on interaction with the world economic systems, on the general state of the world market, on the presence and rational use of natural resources, as well as on scientific, technical and innovative development (Vlasova & Sheiko, 2016).

Despite the fact that the state clearly constructed its main policy of economic development for the period from 2012 to 2016, Russia's position in the world ranking of GDP per capita was down by 20 positions, which was reflected in the current statistics of the International Monetary Fund. In 2012, Russia occupied was in 51st place in the ranking, whereas in 2016, it was only 71st. This is explained by the influence of the crisis. As a result, today such countries as Latvia, Poland, Lithuania and Romania are ahead of Russia (Silnov & Tarakanov, 2015).

To date, our economy produces less than \$740 worth of goods and services per month per capita, which is only half of what it used to be in 2012.

Russia showed negative dynamics of development in that period, as the domestic GDP per capita fell by 1.7 times. This indicator shows that the modern economy retains a negative trend of development and

continues to lose its positions in the world even in comparison with the third world economies, for example Venezuela, which, despite the hunger riots, left our state behind (*"Financial Crisis..."*, 2017).

This negative trend in the development of the Russian economy, in the opinion of specialists of the Moscow School of Management 'Skolkovo', expresses itself in the following:

1. The entire economic system of Russia specializes in the production 'simple' goods: oil, gas, grain, timber etc., while at the same time the world leading economies focus on the so-called 'complex' categories of goods - on technology (*"Marketing research"*, 2017).
2. According to experts, an important factor in the Russian economy is brain drain; highly qualified specialists leave the country, because the economy cannot offer them relevant positions and competitive salaries.

The Russian economy and the state in general are dependent on the oil industry ('simple' commodity); domestic production is recovering at a slow pace, which negatively affects the stability of the state. One such example is that many enterprises that stopped their activities during the years of perestroika until now have been declared bankrupt.

The dependence of our state on other countries can also be observed through a number of political actions that are currently undertaken. This dependence has both negative and positive aspects, which contribute to the restoration of Russian industry, production and agriculture.

The intensification of antagonism in the foreign policy of Russia and the EU members being pressed by the US leadership directly led to the imposition of the notorious set of economic sanctions. This package of economic sanctions is aimed at 'crushing' the economic power of our state and at depriving the domestic market of development opportunities in interaction with external markets and economic spaces.

Nevertheless, the current package of sanctions imposed in 2015 and constantly extended at the present time, did not bring any changes, just as they did not lead to an economic decline of the state in general.

It is obvious, that the discontinuation of economic development programs in cooperation with the world's countries has a number of negative effects (Kobersy et al., 2016). However, there are also positive aspects; for example, restricting the import of goods has had a positive effect on the restoration and development of the production process, industry, agriculture, innovations, and science and technology.

Despite the fact that the economy of the state is in restraint (sanctions), our state is not isolated from the outside world. This is impossible because most of the world powers depend on the enormous natural resource wealth of Russia and the disruption of these contracts with foreign countries is simply impossible.

An important aspect is that the leader of Russia manages to keep situation in the foreign affairs under control, no matter how hard it may be (May, Stewart & Sweo, 2000).

Sustainable economic development depends not only on the ability to retain control in difficult situations, but also on the stability of the exchange rate of the ruble, which was destabilized in early 2014, and continued for a considerable time.

Therefore, taking into account the experience of taking actions such a situation, in the current conditions of unstable development of the relationship between world powers and the market, one of the most important tasks is to strengthen the currency unit of the state - the ruble. The declared free convertibility

of the ruble may drag on for another 10-20 years, due to emerging contradictions. Nevertheless, many experts claim that some parameters of the purchasing power parity of the national currency are undervalued (Shleifer, 1997). The growth of the price of the ruble may help harness inflation, which is currently at a high level, but it may also jeopardize the economic growth.

On the other hand, one of the factors of distrustful attitude to the ruble is inflation, the rate of which should be gradually reduced.

Thus, the development of the state's economy has considerable potential, which is reflected in the assets within Russia: large reserves of natural resources and raw materials, as well as human resources. The main task is to learn how to correctly and rationally use them removing the actual dependence on the world market and other countries.

Along with the problems of development and formation of the economy of the state, there are weaknesses in the development of public institutions that are directly interrelated with the economic system: protection of property rights, access to venture capital, inflation, poor infrastructure development, tax and monetary policy and its regulation, etc. Therefore, the solution of these problems and the implementation of effective state policy to eliminate these inconsistencies will allow the Russian economy to achieve high results, and high indicators of social and economic development.

## **RESULTS**

On the basis of the problems of the State identified above, more specifically, its economic system in the process of modernization and development, two ways to solve these problems can be mentioned: moderately optimistic and hard-edged.

Recent events, the nature of mutual understanding of the political aspects of the world space and the relations with the European powers, direct the Russian economy towards the unstable course of development.

The President of the Russian Federation Vladimir Putin signed a decree banning or reducing the import of agricultural products from those countries that adopt and implement sanctions directed against Russia. He also instructed the Government to provide a list of agricultural goods, the import of which from 2016 to the present time will be banned or restricted (*"Economic Sanctions Against"*, 2017).

This practice of banning the imports from some countries or imposing restrictions on them – such as Romania, which imports cows and beef, the Ukraine with its imports of juices and dairy products, Poland importing vegetables – can have both negative and positive effects. Of course, the ban and restrictions of some goods will entail an increase in inflation. However, the positive effect of these prohibitions and restrictions can be the development of domestic industries and sectors, which in the future will be more independent in their activities and will find application of new innovative approaches to solving economic problems in the production process (Gritsinina & Vlasova, 2016).

The next problem of the development of the Russian economy is the falling employment, which is caused by the aging of the working population and leads to an increase in the pension burden on the Russian economy.

In addition, the decrease in the rates of growth and development of the economic activity of the Russian Federation is associated with insufficient attraction of investment capital in the country. The

President has repeatedly emphasized the fact that one of the most significant tasks of economic stabilization is to improve the investment climate and reduce bureaucracy. According to him, it is necessary to build a model of the economy that will stimulate modernization, the innovative development of businesses and industries, contribute to the inflow of financial investments into existing production and its potential, and increase production of goods that will be competitive and popular with the population.

Russia already has several successful programs that support modernization of production: technology parks, clusters, economic and technological zones, and others.

One more long-standing problem of the development of the Russian economy is the problem of the shadow economy, which is currently gaining more and more momentum. The shadow economy includes those enterprises and economic structures that carry out their activities illegally. According to experts, the shadow economy and all its components must be completely eradicated. Nevertheless, the specifics of the functioning of Russian economy policies suggest that the shadow economy will continue to exist and carry out its activities.

The problem of the shadow economy is directly connected with yet another unresolved issue – the problem of corruption, which destabilizes the situation.

Thus, we can say that all the problems of the Russian economy are a part of the broader stage of its development. It is extremely difficult, if possible, to foresee and evaluate its future functioning. Russia is a multifaceted and complex system to understand and one has to be cautious in forecasting both its long and short term development. With this in mind, we can nevertheless say that the Russian economy, being in the process of its development has good chances to reach a new level.

## CONCLUSION

From the foregoing, it can be concluded that in the modern world, Russia has an urgent need in complete transformation of its entire economic system, of all sectors and industries in order to increase its competitiveness in the world. Changing the orientation of the Russian State and economy will help them to grow reliably and stably, and will entail stabilization of economic relations between the State and society, the State and the market, and the State and the world.

For many years, a number of industries in Russia worked, and some continue to work using the previously gained momentum. But the continuation of this way of development of the economy is impossible. Today, Russia faces a number of issues that require immediate economic modernization, replacement of worn-out and unusable fixed assets, development of innovation and investment policy, and taking advantage of the available material and human resources.

Based on these findings, it should be noted that Russia has a significant potential for growth of national competitiveness, but does not make full use of it. With its rich natural resources the State needs to attract investment, and use additional opportunities to develop sectors of the economy, without which there will be no further stabilization.

Thus, Russia must constantly tackle the current problems in the economy, as well as those that have been around for a long time, pursue policies of modernization, increasing the competitive advantage that will enable the country to reach the leading position in the world.

## ACKNOWLEDGMENT

The study was supported by the Russian Foundation for basic research '17-02-50127 «Managing differentiation of economic space of regions in the period of neo-industrial in Russia»

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