

ENTREPRENEURSHIP DEVELOPMENT FOUNDATION

The Project:
OIL REVENUES: CHALLENGES FOR AZERBAIJAN
INFORMATION BULLETIN
№3, 2007

**COMPETITION POLICY OR
INDUSTRY POLICY?**



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Another round table discussion on the project was held on 18 April 2007. The subject of the round table was the following: **“Competition policy or industry policy?”** The professor of the Azerbaijan State Technical University, Ragib Guliyev, and the president of Entrepreneurship Development Foundation, Sabit Bagirov, made presentations at the round table.

The round table was attended by: Dr. Ragib Guliyev (Azerbaijan State Technical University, professor); Sabit Bagirov (Entrepreneurship Development Foundation); Dr. Ali Masimli (member of parliament); Vahid Ahmedov (member of parliament); Dr. Gubad Ibadoglu (Economic Research Center); Dr. Ingilab Ahmedov (Public Finance Monitoring Center); Dr. Azer Mehtiyev (“Ekspert” magazine, director); Dr. Elkhan Mammadov (Bank Training Center of Azerbaijan); Konul Khalilova (State Oil Fund); Togrul Cuvarli (“TURAN” Information Agency); Dr. Ali Alirzayev (State Economic University, professor); Dr. Fuat Rasulov (“Xazar” University, professor); Namik Azizov (Union of Azerbaijany Managers); Azad Aliyev (Association of Sosial Economic Researches); Sevgim Rahmanov (Union of Traiders & Producers); Araz Farzaliyev (“Azertac” Information Agency); Dr. Irada Eyvazova (Center for Economic & Political Research); Alovzat Bayramov (Entrepreneurship Development Foundation); Aydin Nizamov (EITI-Azerbaijan Coalition); Suheylyla Jafarova (Eurasia Foundation); Malahat Hasanova (“Olaylar” Information Agency); Ayla Azizova (BP); Yusif Huseynov (“Paritet” Newspaper); Elnur Huseynguliyev (APA Information Agency).



The factor of the independence of a subject of competition in the mechanism of the policy of strong competition

Dr. Raqib Quliyev

The professor of the Azerbaijan State Technical University

The prevention and restriction of the degree of the independence (autonomous status) of a subject of competition - one of the topical and active factors in the process of forming an effective policy of competition - implies that it is possible to exert strong influence on the activities of the subject of competition and especially, the quality of decisions and that such influence plays a decisive role in many cases.¹ The dimensions of research and application of this issue are different. Regardless of the organizational form or model of the mechanism of protecting competition, the identification of the degree of the independence of that structure is one of the most complicated issues. Despite this, it would be expedient to stress several aspects of several issues here.

First, a subject of competition does not function in a political and management gap in any country. Regardless of existing rights and authorities, that subject forms an integral part of state (government) structures. In the best case, the policy of competition and programs that focus on it become an integral part of the state's economic policy. For this reason, "outside influence" on the operation of the subject of competition seems natural. Second, the structure of the independence of the subject of competition forms from different "elements". First of all, it would be expedient to attribute organizational, functional and operational independence to these elements. In terms of the degree of independence, inequality between those "elements" is possible. Thus, even if they supplement each other, the range of outside influence in this sphere is wide. Third, the

¹ According to a UNCTAD survey, the effective and neutral operation of an agency overseeing competition, making the best use of its powers, depends the extent of its independence from other state (government) agencies. (UNCTAD. Review of Recent Experiences in the Formulation and Implementation of Competition Law and Policy in Selected Developing Countries. United Nations, New York and Geneva, 2005, p.209). There is no doubt that regardless of the independence and scale of the powers of an agency overseeing competition in every country, it operates in a regulatory network and system to this or that extent. For this reason, the effective operation of an agency overseeing competition is possible only in mutual relations with those regulatory agencies and in coordination regulated by the law. That requirement applies to the activity of all regulatory subjects to this or that extent. From this point of view, the independence of every regulatory subject (subjects) is possible only in conditions of mutual relations and coordination.

sphere of the independence of the subject of competition is not restricted by this or that segment of the activities of that organization and covers different stages. This can be analysis and research; decision-making; execution of decisions and oversight of that process. Fourth, though the importance of the independence of a subject of competition is expressed in the formation and implementation of a strong policy of competition, it is possible to call this an end result. Along with this case, the formation of an entrepreneur's or consumer's trust, and in general, public trust in that organization on the basis of the subject of competition becoming independence can be taken as an intermediate result, a sign and indicator.

The evaluation, support (appreciation) and spread of successful solutions to this issue in developed countries is in the center of the attention of various international, regional and national organizations that specialize in problems related to the policy of competition.² From experience, we know that negative (opposite) cases in this sphere also get in the way of the work of a subject of competition or even deform it and that such tendencies are especially common in countries with transitional economies and in developing countries. In a word, the nature of the work of an organization that protects competition in the mechanism of the policy of competition or simply the work of an organization that is in charge of competition are of fundamental importance. In places where there is a serious and responsible approach to the policy of competition, this fundamentality has been realized and assessed to this or that extent. As a natural manifestation of this, we can take the formation of the work of an organization that is charge of competition in the mechanism of the successful policy of competition on the basis of an independent (unrelated) regulatory agency³ in developed economies. This model of organizing an agency overseeing competition can also be assessed as one of the important conditions and signs of a successful and strong policy of competition. This takes a firm place among integral parts and elements of the general and maybe already universal policy of competition in developed countries.

At the same time, various forms of an "independent regulatory agency" are accepted in those countries. This manifests itself, first of all, in the nature of the appointment of

² UNCTAD. Report of the Fourth United Nations Conference to Review...GE. 00-53098, Geneva, 25-29 September 2000; UNCTAD. Fifth United Nations Conference to Review... Programme of Meetings, ATY.05-004, Antalya, Turkey, 14-18 November 2005

³ The requirement or rule of setting an Independent (unrelated) Regulatory Agency applies to the activity of all regulatory agencies to this or that extent. For this reason, in a broader sense, the idea that the principle of an Independent Regulatory Agency is can be regarded as useful.

authorized officials of those agencies within the framework of the structure of the tasks and functions and the authority of the agency protecting competition. For example, the fight against anti-competition practices and the function of protecting competition in a wider sense in the USA are carried out at the federal government level by the Antitrust Division of the US Department of Justice and the Federal Trade Commission. In Britain, there are three organizations that specialize in this sphere – the Office of Fair Trading, the Monopolies and Merger Commission and the Restrictive Trade Court. In Italy, these activities are concentrated in the Italian Antitrust Authority. In Japan, these activities fall under the jurisdiction of the Fair Trade Commission that is subordinate to the country's prime minister.⁴

In the United States, officials (representatives, officials overseeing competition and members of the commission) authorized to make decisions in both agencies are appointed by the president and approved by Senate. In Italy, decisions regarding the protection of competition are adopted only by a relevant commission authorized to do so and the chairman and four members of that commission are appointed by the chairman of the country's Senate and the relevant chamber of parliament together. The general secretary who oversees the daily activities of the agency is appointed by the minister of industry at the recommendation of the chairman of the commission. In Japan, the chairman and all members of the Fair Trade Commission, which is responsible for protecting competition, are appointed by the prime minister with the consent of the country's parliament.⁵ Those people should be experts in legislative and economic issues and their immunity is guaranteed by the law. The legislative regulation of the age limit (above 35)⁶ of those nominated for this post can be assessed as an important fact.

Thus, organizations that are authorized to make decisions in the sphere of protecting competition and pursue legislation and policy on competition are subordinate to the country's president in one case, and in another case, to the prime minister or operate as part of a relevant agency. The range of aspects that draw our attention in this regard is wide. This also includes the practice of the country's president appointing and the legislative

⁴ The 2000 handbook of competition regulators. Global Competition Review. London, 2000.

⁵ The structure of the government in Japan forms from agencies that have different status. Along with 10 ministries, this also includes independent and dependent agencies, agencies that are subordinate directly to the prime minister, are included in the cabinet and are indirectly subordinate to the prime minister, as well as agencies under individual ministries. For example, the country's Tax Bureau, the Customs and Tariff Bureau are subordinate to the Ministry of Finance, the KOM agency is subordinate to the Ministry of Economy, Trade and Industry, the Fair Trade Commission directly to the prime minister, and six agencies engaged in foreign trade to the prime minister's office.

⁶ The 2000 handbook of competition regulators. Global Competition Review. London, 2000.

body (Senate) approving authorized officials of agencies overseeing competition within the known organization (the Antitrust Division of the US Department of Justice). Along with the Antitrust Division of the US Department of Justice, such an approach is also apparent in the work of the Federal Trade Commission which is under the jurisdiction of the country's president. In other words, by that sign of the independence of an agency overseeing competition, both agencies are at the same level.

Another conceptual and fundamental issue surfaces in those agencies working as parallel organizations that are independent from each other and do not compete with each other even in cases when decision-making powers are divided between different organizations (two, three and so on) in the same country. For example, as we have already said, in Britain those powers are divided between three organizations⁷ and in Germany between two organizations (the Federal Cartel Department and the Federal Ministry of Economic Activity)⁸. On the basis of this experience, we can come to several effective and important conclusions. First, the organization of the work of an organization overseeing competition on the basis of the principles of an independent regulatory agency does not mean that the powers to protect competition in this or that country should be divided between one or several agencies. In developed countries, this system forms under the influence of various factors, including in line with economic legislation and relevant traditions of state management and economic regulation. In terms of existing stereotypes, in developed countries and in transitional economies, it seems more expedient to organize the protection of competition on the basis of one subject (one-agency option) regardless of the scale of the economy.⁹

Second, if the powers to protect competition are divided between several agencies in the same legal and economic area, those agencies operate on the basis of the model or principle of parallel organizations. In these cases, the main issue is not about the composition of an organization to protect competition, but about the formation of an organizational base appropriate to the objectives of the competition policy.

⁷ Monopoly Policy in the UK. Assessing the evidence. Cheltenham, UK, 1998

⁸ The 2000 handbook of competition regulators. Global Competition Review, London, 2000

⁹ This is explained, first of all, by the restricted nature of the mechanism and experience of coordination between government agencies and difficulties observed in this connection. In the CIS area, there are different shortcomings in the mechanisms of "teamwork" in economic regulatory agencies. In a word, various agencies have already admitted that in these countries, the "quality" of cooperation between government agencies is seriously lagging behind the "quality" of the activity of various regulatory agencies. In some cases, it is even regarded as an alarming case. Such a situation has developed for various reasons. Some of them are characterized as "residual problems" and others reflect the model of economic state management that is forming in the country, the third part of them bears the burden of goals, skills and abuses in officials' activities.

Third, the organization of the protection of competition on the basis of several agencies that are independent from each other (multi-agency option) implies that those agencies will be operating not as rival organizations, but on the basis of the principle of mutual supplementarity. For this reason, in all such cases, the successful division (in a way that rules out conflicts) of the powers to protect competition between those agencies has become a fundamental issue of the mechanism of competition.

Fourth, in the multi-agency option of organizations protecting competition, the goals and nature of relations (coordination, cooperation and so on) between those organizations in charge of competition are considerably different from relations (from the coordination of activities and cooperation) between organizations in charge of competition and other regulatory structures (agencies). For example, in any case decisions adopted in the sphere of protecting competition and in line with legislation on competition serve the goals of the policy of competition regardless of the segment of activities of the agency that implements those decisions (agency that is in charge of competition). However, for example, decisions made by agencies that regulate this sphere, even if they totally match the goals of the regulation of the sphere, can contradict the goal of protecting and developing competition. Such cases are more common in countries where institutions and traditions of regulating and protecting competition are not well-established yet.

All the cases shown above reflected the necessary requirements which ensure that an organization in charge of competition operates as an independent regulatory agency in order to be able to make effective decisions to prevent anti-competition behavior. A number of cases assess this as a condition (requirement) for the operation of an organization in charge of competition independently from other government agencies¹⁰ and for its political independence.¹¹ With the aim of protecting financial stability on the domestic market and increasing social welfare, it is possible to ease the burden of short-term pressure on the policy of competition and on the mechanism of implementing the requirements of that policy, which stem from inflation, employment, payment and budget policies, by restricting changes in this sphere, for example, turnover, in a legislative way. However, this yields a real benefit only when a number of requirements directly related to the purpose of the policy of competition are taken into account.

¹⁰ A Framework for the Design and Implementation of Competition Law and Policy. The World Bank and OECD. Washington and Paris, 1999, p. 148

¹¹ John Cubbin. Issues in the development of effective competition policies. The case of the UK Second International Competition Symposium. Istanbul, Turkey. 6-7 March 2000

Those requirements are reflected and surface in a number of aspects at a specific level of activity related to the protection of competition: a) the systemic and consistent establishment and firm implementation of the principle of the supremacy of the law in economic legislation and especially, in the mechanism of legislation on competition; b) Regardless of the principles and forms of the vertical relation (dependence) of an organization in charge of competition, the prevention of the interference of “higher agencies” in the process of decision-making by that agency; c) The legislative establishment of the tenure of officials who make decisions regarding the protection of competition and the identification of that period on the basis of the principle of independence from political pressure;¹² d) the nature, scale and mechanism of ensuring the priority position of the organization in charge of competition in relations with other regulatory agencies in the sphere of protecting competition; e) the effectiveness of the mechanism of implementing decisions that are adopted and especially, responsibility for failure to implement those decisions or for the proper implementation of those decisions; f) powers and potential to carry out a good economic analysis (surveys, research and so on) and decisions.

In connection with the latest aspect, the issue of appointing the executive head of an organization in charge of competition is of special importance. For example, in UNCTAD surveys, when the executive director of an organization in charge of competition is not a member of the decision-making commission, it is more expedient for the commission to carry out an appointment to that position or recommend a candidate.¹³ In these cases, the executive director of the organization in charge of competition is supported by the commission in charge of competition to this or that extent, and this method makes it possible to limit outside pressure on economic analyses and other similar operations that are mainly carried out by the executive structure. Of course, the nomination and appointment of officials to relevant positions for organizing the activities of an organization in charge of competition and making decisions on issues examined in this sphere is an important issue and has many options, as we said above. For example, in Austria such decisions are made by Cartel Court, and the country’s Trade Chamber and the

¹² This situation has become a subject of discussion on the status of an agency protecting competition and the appointment of its officials by the legislative body. In order to reduce the dependence of officials of that agency from “the activity of a deputy” elected for a certain period of time (four, five or seven years), it is more expedient to extend the tenure of these official for longer than “a deputy’s tenure”.

¹³ UNCTAD. Review of Recent Experiences in the Formulation and Implementation of Competition Law and Policy in Selected Developing Countries. United Nations, New York and Geneva, 2005, p. 209

Conference of the Agricultural Center also participate in forming the composition of the court.¹⁴

In general, there are four groups of problems at various levels in terms of the independence of an agency that influences the policy of strong competition or agencies and its members who have such power. First, failure to select the ideal option in the issue of the nature, borders and effectiveness of the influence of an organization in charge of competition on the independence of economic subjects that allow or might allow anti-competition behavior and on the activities of those subjects, as well as in the issue of compensating damage and lost profits to these economic subjects if such influence (interference) is legal (well-founded). Second, obstacles that step from institutionalization in relations between an organization in charge of competition and “higher organizations”, especially in places where the policy of competition has only just started forming and where strong uncertainty is observed in its implementation. Third - the open and well-established presence of the anti-competition regulatory function (phenomenon) in the work of regulatory agencies (special regulation of spheres) and in this connection, the difficulty of eliminating contradictions and conflicts between those agencies and the organization in charge of competition. Fourth - the likelihood of unequal influence from the activities (as well as inaction) of the organization in charge of competition and regulatory agencies on conditions of competition between economic subjects or the fact that the factors which cause it have not been fully eliminated.

Finally, the independence of the organization overseeing competition forms under the influence of political, legislative, administrative, financial, human (personnel) resources and management factors. However, in all countries the issue of “political interference” in the implementation of the policy of competition, as we have already said, is of special importance to this or that extent. For the time being, no country has been able to identify the perfect borders of it. The crux of the issue does not actually end with pressure and interference from “higher agencies” with this or that decision of the organization overseeing competition. What is more important here is the application of those decisions on the basis of rules officially approved by the government or another agency or in line with the decisions of the organization overseeing competition. This manifests itself with different methods in legislation on competition in developing countries and in transitional

¹⁴ The 2000 Handbook of Competition Regulators. London, 2000, pp. 10-11

economies. In India which is regarded as a country that has been carrying out a successful policy of competition in recent years, the law on competition establishes that the government has the right to issue political directives to the organization overseeing competition.¹⁵ According to the law, the country's government has the right to veto decisions of the organization overseeing competition even when those decisions do not run counter to the requirements and norms of legislation.¹⁶ These cases happen mainly under the guise of national interests and in the form of direct and indirect political interference.

In developing countries, transitional economies and partly in developed countries, such cases form in an uncertain spectrum and from extremely different tendencies. In a number of cases, this expresses economic and social targets established as real national interests and leads to various short-term positive results.¹⁷ However, there are cases when this turned into an integral part of the mechanism of implementing the interests of political groups or parties under the guide of "national interests". Finally, we know from experience that the interests of this or that person (a group of persons) and oligarchs. The latter tendency can get even stronger in the event of political failures and in cases when the law is used as an administrative tool by the authorities. This can apply to cases when the mechanism of competition falls under the influence of market failures and failures of the policy and economic legislation. It is no accident that "forces which are hostile" towards the organization overseeing competition can emerge not only from the circle of business activity, but also from the camp of regulators and politicians. From this point of view, the organization overseeing competition has a unique place among independent regulatory agencies.

The undeniable economic, social and even political benefits of competition in developed economies have resulted in the establishment of a mechanism of lobbying for competition. Although business financial groups, industrialists, small and medium-sized enterprises, agrarians and others have sustainable lobby institutions, the "lobby" of competition or the institution that "lobbies" for it has not turned into a reality in every

¹⁵ Towards a Functional Competition Policy for India. Jaipur, India, 2005, pp 25-27

¹⁶ Towards a Healthy Competition Culture...Jaipur, India, 2005, p.40

¹⁷ Experts who study competition almost unanimously share the opinion that the negative consequences of the violation of competition surface immediately while the positive results of the elimination of such violations manifest themselves gradually. At the same time, there are different approaches in explaining and assessing the prevention of violations of competition or the results of eliminating them, especially the short-term and long-term effects that this may have.

country, according to our information.¹⁸ Although one of the most important social benefits of competition manifests itself in the implementation of consumers' interests and the policy of strong competition plays the role of a factor that creates jobs at the level of long-term economic targets, in a number of cases an organization overseeing competition comes into conflict with trade unions.¹⁹ Those organizations can also be one of the "forces that are hostile" towards the organization overseeing competition. It is no accident. This stems partly from the nature of competition, partly from the attitude to laws in a country and society and from relations that form on the basis of these laws, partly from the effectiveness of legislation on competition, from the fairness and reliability of that mechanism and finally, partly from the nature of the activity of the organization overseeing competition.

In this regard, we would like to point out that a Friends of Competition²⁰ movement has started in a number of developing countries in recent years. The goals of this organization are to spread information about the benefits, advantages and nature of competition, the mechanism of competition and the formation of an environment of competition, to promote the formation of a culture of competition on this basis and by increasing the population's activity, to expand sources of pressure on cases that limit competition. The emergence of such a movement in developing countries and transitional economies is quite natural. The basis of this movement is that the policy of competition is still being formed and the shortcomings that stem from it. From a certain point of view, the Friends of Competition movement can be assessed as a movement that is typical of those countries. In developed economies, this was achieved in a natural way, which is why there is no need to set up such a movement again. From a functional point of view, the Friends of Competition in those countries are operating in the form of different social groups and organizational structures (consumers, entrepreneurs, universities and so on).

¹⁸ Boge Ulf. International cooperation in competition. Fifth United Nations Conference to Review...AYT..5-039, Antalya, Turkey, 14-18 November 2005

¹⁹ John Cubbin, Issues in the development of effective competition policies/ The Case of the UK. Second International Competition Symposium. Istanbul, Turkey, 6-7 march 2000

²⁰ Friends of Competition : How to Build an Effective Competition Regime in Developing and Transition Countries. Jaipur, India, 2003

INDUSTRY POLICY¹

Sabit Bagirov

Dear Ladies and Gentlemen!

My presentation today covers industry policies and their role in fostering the non-oil sector. In the context of the Azeri – and Russian – languages we have got into the way of using the term *policy* in a narrower, specific sense. What is the industry policy then? Nobody has a complete and exhaustive answer to this question. Relevant ‘definitions’ seem to have been confined to different conclusions or opinions. It could be to the point to quote Dr Marshall Pomer, the president of the Macroeconomic Policy Institute, Santa Cruz, California, as saying that “agreeing on a definition or using ideological phraseology, it becomes possible to define the industry policy as an intervention of the State into the regulation of resources on the market. In the language of professionals, this refers to throwing obstacles to the free movement of goods and services as well as the capital on the international scale.”² Meanwhile, according to Prof. Alexander Auzanin, the head of the Department of Applied Institutional Economics at Moscow State University, the industry policy is a “model for the implementation of institutional reforming by the State.”³

Industry policy is an alternative to competition policy. Applying these policies the governments state that they pursue the goal of furthering economic development, thereby making their respective nations more powerful and bettering the well-being of their populations.

The studies of the results of different discussions, proceedings and papers prove to us that the industry policy – like any other action plan – is eventually a package of measures based on certain philosophy, provided that the Government orchestrates everything which is intended to be done or achieved, while the business and relevant institutions follow the corresponding rules and procedures. In the language which is easy to understand, the industry policy is the support of selected industries by the Government.

¹ This presentation was made at a roundtable meeting of the Entrepreneurship Development Foundation on 18 April 2007.

² Необходима рациональная промышленная политика. Маршалл Поумер - директор Института макроэкономики, США. <http://rusref.nm.ru/poum.htm>

³ Александр Аузан. Вопрос о промышленной политике в России – это вопрос об активной линии институциональных изменений. http://www.opec.ru/point_doc.asp?d_no=41674

Support by the Government can show its worth in different ways: subsidies, tax and customs holiday, other incentives, placing orders for government purchases without putting such arrangement out to tender, etc. The corresponding advantages and benefits set up favourable conditions in certain industries and for some businesses, thereby violating the principle of fair competition.

Meanwhile, the industry policy is an indispensable component of the entire economic policy of the State. Depending on the existing circumstances as well as on economic approaches, vision and concepts of the State, the industry policy can bear either heavy weight to policy makers or be of less importance for them, be the most substantial or less visible part of the economic policy in general.

Referring to the results of the studies on relevant topics, it becomes clear that the industry policy is an explicit way of regulation in emerging economies and economies in transition. Governments often tend to introduce this policy in implementing reforms. On the other hand, signs of industry policy could be apparent to the naked eye in industrialised nations as well.

The state interest in selected financial & manufacturing businesses is a manifestation of the industry policy in development nations. The State is often in control of these businesses through the banks which it owns. A clear example is Italy's Ministry of State Property which commands the activities of three giant holding companies – IRI, or the Institute of the Reconstruction of the Industry, ENI, a national energy conglomerate, and EFIM, a major shareholding agency in charge of the provision of funding for the industry. Each of these 'Big Three' receives funding from the State, is exempt from interest payments on the borrowings, and enjoys the right of issuing agency pass-throughs or secured public bonds.⁴ In return for those privileges, these companies remit up to 65 percent of their profits to the Treasury. Meanwhile, they are sufficiently independent. The Government of Italy intervenes in the appointment of top managers and is in charge of investment policies only. IRI alone has the authority over more than 300 companies employing half a million people. Alfa-Romeo, a well-known car manufacturer, is one of the blue chips under the authority of IRI.

The Institute of National Industry is a Spanish response to protect key assets from foreign takeovers. This organisation incorporates 50 big businesses and generates 7 percent of the entire industrial output in the country.⁵

In France, the Government still has a tight grip on some core assets, including Renault, a leading global car manufacturer which was founded in 1897 and nationalised in 1845. Another

⁴ Финансово-промышленные группы в современном мире. В.А. Цветков, к.э.н., зам. директора Института Проблем Рынка РАН. Журнал "Промышленная политика в Российской Федерации", 6, 2000.

⁵ Финансово-промышленные группы в современном мире. В.А. Цветков, к.э.н., зам. директора Института Проблем Рынка РАН. Журнал "Промышленная политика в Российской Федерации", 6, 2000.

example of state-owned company is Snecma Group, the world's fourth biggest manufacturer of engines.

The Government has a heavy hand in Japanese industry as well. According to Lee Iacocca, an American industrialist and prominent expert in management, the Japanese automobile industry enjoyed the protection through a series of promotion mechanisms: government loans, acceleration of depreciation lifespan, support of research & design work, protectionist policies on the imported goods, and a ban on foreign investments.⁶ The Japanese Government is engaged directly in crafting and implementing the industry policy. Despite the focus is made on economic aspects and models, whenever required, the Government gives open support to the industry. To put an end to a setback in the industrial output in 1992 and 1993, the Government accepted the state funding programme, thereby paving the way for economic growth next year onwards.⁷

In emerging economies the Government's direct involvement in industries is more evident. According to experts from the Russian Institute of Natural Monopolies, "with the support from Government Chinese exporters can easily remove the traces of a number of industries in the Russian economy, including the entire machinery sector."⁸ A report, compiled by the Institute, reveals a 138-percent rise in the amount of vehicles, which Russia imported from China in 2006. A five-fold increase was observed in tube exports from China to Russia since January through May 2007 as compared with the last year's corresponding performance. In 2006, Russia's exports to China constituted 15.75 billion U.S. dollars, up 21.2 percent from the total of the previous year; imports made up 12.89 billion U.S. dollars, up 79 percent from the corresponding performance in 2006. Some 90.5 percent of Russian exports to China fall to the share of raw materials, with energy resources taking the bulk of it – 53.9 percent. Over the corresponding period, Russia exported machinery and equipment worth 217 million U.S. dollars or 1.4 percent of its aggregate supply of goods and services to China. As to the structure of Chinese exports to Russia, the share of machinery and equipment item rose from 17.2 percent (1.56 billion U.S. dollars) up to 29 percent (4.59 billion U.S. dollars) in 2006. To protect the Russian economy from Chinese foray, the authors of the report propose to introduce quotas on imports, antidumping measures and voluntary limitation on exports. Also it was suggested to apply to a broader extent, mechanism of technical regulation requiring the Russian business, including natural monopolies, to prioritise purchases of "Made in Russia" goods and services and from Russia-based suppliers, and to introduce preferences for leasing companies acquiring Russia-manufactured equipment.

⁶ Ли Якокка. Карьера менеджера. Пер. с англ. М., 1991.

⁷ Финансово-промышленные группы в современном мире. В.А. Цветков, к.э.н., зам. директора Института Проблем Рынка РАН. Журнал "Промышленная политика в Российской Федерации", 6, 2000.

⁸ <http://www.vedomosti.ru/newspaper/article.shtml?2007/07/05/128717>

The table below clearly describes the means of and facilities for supporting the automobile industry in Russia.⁹ The corresponding package of measures also covers different aspects of and objectives for the industry policy.

- Supporters of the industry policy substantiate their respective vision and attitudes by the following:
- industry policy is inevitable at a certain period of history of the State;
- reconstruction and modernization of the national industry requires support from the government;
- introduction of a new structural policy on the national economy is possible through the intervention by and involvement of the government;
- non-oil sectors of the economy are in need of the protection by the government to survive against the expansion of petroleum development and mining operations;
- industrial policy is a factor of balancing within the government-business-society triangle.

Opponents argue that:

- The market economy leaves no room for industry policy, which is a hangover from the Soviet period;
- The industry policy causes wasteful and ineffective use of public finance;
- The industry policy breaks the environment of fair competition;
- The industry policy opens way to the cases of corruption and embezzlement;
- Successful results are impossible since modern economies are very dynamic and unpredictable.

On the other hand, to what extent is it substantiated to claim that industry policy is inevitable at a certain period of history of the State? Given that the competition policy can be preferred to the industry policy, why do the Governments favour exactly the industry policy at a certain period of their history? I think there could be several reasons for that:

- Compared with the competition policy, the industry policy could be more understandable to the population. Pursuant to that policy are specific programmes and action plans with specific aims – some of these purposes could be attractive to the population. For example, in its action plan the Government can prioritise the building up or modernization of certain businesses or infrastructure, the opening of new jobs, and the implementation of other measures to encapsulate the felling of national prides, etc.;

⁹ Промышленная политика в области автомобильной промышленности
<http://www.icss.ac.ru/publish/analysis/am011.html>

- Compared with the industry policy, the competition policy envisages more deliberate methods, covers the economy on a broader scale, thereby failing to concentrate on specific businesses. It is quite natural that the Governments implementing the competition policy can pursue certain plans as well, which, however, fail to be clearly understandable, attractive to the population, and be easily monitored against their feasibility;
- The strengthening of self-defence capacity of the State requires the linkage between the development of the defence industry and relevant units of the economy;
- Over-reliance of the Government on its strength, capacity and the ability to predict could result in the failure to accept opponents to its ideas, and to invite the community of experts for consultations in general.

Meanwhile, is the pursuit of the political conjuncture and the winning of the short-term confidence from voters are two major issues on agenda for the Government, it would likely prefer the industry policy to the competition policy which proves its worth in the long run.

The world practice tells us that petroleum and mining industries make other sectors of the industry disadvantageous. What could be the reason for that? First, there is a huge difference in profitability rates in favour of petroleum and mining development. The companies operating a hydrocarbon field or a mine can enjoy 500 percent – even higher – return on equity, while the economic efficiency in other sectors of the economy is 10 to 20 times less. As a result, the flow of investment and the movement of human capital make the focus on the oil & gas sector.

Secondly, mammoth earnings generated from the exploitation of natural resources are fraught with the emergence of the **Dutch Disease** in the national economy. This syndrome adversely affects the non-oil sector at large, thereby weakening the competitiveness of both national and international business beyond the petroleum market.

Consequently, resource-rich countries will likely find it necessary to implement policies on the protection of the non-oil sector against the petroleum industry. At the same time, the Governments encourage the development of the non-oil sector through different promotional mechanisms if these measures are aimed at getting rid of the dependence on the oil factor. Such policy may duplicate certain elements of the industry policy.

One of the controversial points of the opponents of the industry says: “The industry policy should not be implemented in market economies since this policy is very attributable to the Soviet, or planned, economy.” What has happened in living memory during the Soviets is that no room had been left for the competition policy. The industry

policy was always the policy steered by the Government – the consequences of it are well-known to everybody.

Forms of industry policy measures	General rise in demand	Increase of the share of national manufacturers on the domestic market	Export promotion	Attracting investments	Standardisation of business activity
Customs policy		Increase of duties imposed on the importation of foreign cars		Customs benefits for the setting up of large-scale businesses	
Tax policy	Taxes imposed on the acquisition and possession of means of transportation (excises on vehicles, etc.)		Extension of the term of return of currency proceeds	Benefits for the commissioning of modern equipment and for the implementation of quality improvement programmes	
Budget policy		<ul style="list-style-type: none"> - A ban on the acquisition of foreign machinery and equipment at the expense of public finances (means of passenger transportation) - Allocation of public finances for the re-equipment of the fleet of the means of public transportation 		<ul style="list-style-type: none"> - Loan guarantees - Backing of loan interest rates - Financing of fundamental investigation and research 	Restructuring of the indebtedness of businesses
Anti-monopoly policy					<ul style="list-style-type: none"> - Prevention of cartel agreements/conferences - Balancing between the concentration of production and observance of the rules of competition
Technical policy	Adaptation of the procedures for the registration of vehicles with the purpose of streamlining leasing operations and consumer credits	A ban on the exploitation of the buses with more than 10 years in operation on public transport	<ul style="list-style-type: none"> - Harmonisation of technical standards - Promotion of foreign economic activities through commercial missions and embassies 		

Mr Pavel Teplukhin, the president of Troika Dialog, a major Russian investment company, holds firm to the opinion that “in a market economy the industry policy is implemented in every specific business by particular managers, at their own risk in return for high salary and premium bonuses. By making a decision a manager takes the

corresponding risk. Therefore, the industry policy at the level of the Government is a point of absurdity.”¹⁰

The industry policy should not be implemented in a market economy in a systematic way, for a long period of time. Otherwise, it would be wrong to classify the policy-affected economy as a market economy. On the other hand, it becomes evident from the above-mentioned cases that even industrialised nations with well-developed market economies do have certain elements explicitly attributable to the industry policy. In a case like that it would certainly be to the credit of those emerging economies and economies in transition which are free from the elements of systematisation and constraint in respective industry policies.

Opponents argue that the industry policy causes wasteful and ineffective use of public finance. What is the reason for that then? Modern economy is changing rapidly, while the factor of predictability becomes a challenge, thereby deteriorating the final quality of the corresponding action plans. Another reason is based on the substantiation of policy-making decisions by certain political set-up, without taking economic efficiency into consideration at all. Such circumstances have been described in one of the above-mentioned examples. Using public finances as a likely source of funding for the implementation of the industry policy could be one more reason. Given weak civilian oversight of such processes, the efficiency of the industry policy depends on the competence of the Government and local management in charge of the implementation of the corresponding action plan.

The industry policy can also be accompanied by the cases of corruption and embezzlement since no Government is free from the illegal appropriation of funds.

Prof. Andrey Yakovlev, the vice-rector of the Moscow-based Higher School of Economics, thinks that “the intervention by the State into the economy in such way won’t trigger corruption in Russia only, but in other states as well... but we haven’t mechanisms for protection against corruption. Therefore, one can say about the negative experience of the industry policy in mid-1990s when funding was being provided for largely inefficient programmes, substantial amount of money was being spent without tangible return, but for the purpose of supporting the national industry.”¹¹

¹⁰ Павел Теплухин. В рыночной экономике промышленная политика на государственном уровне – абсурд. http://www.opec.ru/point_doc.asp?d_no=34351

¹¹ Андрей Яковлев. Кризис модели. http://www.opec.ru/point_doc.asp?d_no=42283

Benefiting by the industry policy are either separate sectors of the economy or particular businesses irrespective of their ownership. A clear example in case of Azerbaijan is Qaradag Cement Plant, a business overwhelmingly controlled and owned by the Holcim Group of Switzerland. The cement manufacture used to enjoy certain advantages. The results, however, fell short of consumer expectations. On the one hand, cement production was boosted in the country. On the other hand, the manufacturer cemented its monopoly status on the market. As a result, the commodity is traded at the price almost twice the corresponding worth available on the Turkish market. The higher price of cement has eventually has caused an increase in the prices of other commodities and services. "...protectionist measures applied to Qaradag Cement Plant or Baku Steel Company have resulted in the rise in prices in case of the first business, and keeping the prices unchanged with respect to the commodities produced by the second business."¹²

As a matter of fact, I don't think that the industry policy hasn't been implemented systematically in my country. The decisions by the Government covering the industry have often turned out to be a response to crisis situations. This is likely the result of the loss of the greater part of industrial assets – we still are losing them. Clear examples are the demolition of two strategic plants – Sattarkhan and Ulduz. The latter plant was of exceptional importance – substantial amount of money had been spent on setting that business up during the Soviets. Special design know-how was applied to the construction of the building of the plant. Both assets have fallen victims to myopic policy aspirations.

If implemented in the future, how should the industry policy look like in Azerbaijan? Below is the list of our initial estimates on this:

- the industry policy should be a component of the national programme on economic development;
- as a rule, the industry policy should make the focus on improving the ability of national businesses to meet competition and boost their export capacity;
- the term of the industry policy should not be determined as being bound to the setting up or modernisation of particular businesses, but to the development of specific sectors;
- by defining the beneficiaries of the industry policy, these, irrespective of their ownership, must receive the same treatment from the Government, thereby leaving

¹² Aylıq İqtisadi İcmal. Turan İnformasiya agentliyi. Yanvar, 2003/Monthly Economic Review, Turan news agency, January 2003.

no room for favouring the state-owned business. Contrariwise, it is the private business who must be preferred expediently;

- while implementing the industry policy, the respective funding must be provided on account of private investments rather than relying on budget means;
- globalisation processes should be taken into consideration;
- the forms of the industry policy *una voce* must be substantiated by market mechanisms.

While implementing the industry policy, it should never be forgotten that such a strategy violates the environment of fair competition, thereby putting obstacles in the way of making the national economy benefit by the principles and opportunities proposed by the market. Thus, in the long run the industry policy could cause more disadvantages as compared to the anticipated advantages. If the industry policy is inevitable at certain period of time, there certainly is the short-term need to have it instead of the competition policy.

In the end, a consensus among the Government, business circles and the public on the industry policy is one of the conditions of the success of the corresponding action plan.

Thank your for your attention.



A new industrial policy has been announced in Russia¹

Maxim Grigoryev

General Manager of “PR Governance” Consulting Group, Russia

The main unvalued event of recent months is the formation of a new industrial policy. The potential weight of this subject on the agenda is commensurate with the subject of priority national projects.

1. Professional deformation of pundits and political experts

The thinking of our peri-political audience is deformed due to its excessive politicization. In terms of psychology, we can talk about a new form of professional deformation. It is common to try to explain all events in the country, especially the authorities' actions, only by the struggle for power.

Perhaps, this dubious tradition is linked mainly to the late period of Yeltsin's rule. Indeed, most of his actions at the time were dictated by the struggle for ruling positions, while there was no time for real issues of the economy and the state. As a rule, these issues had a lower priority in comparison with politics. We remember a joke about a minister who could not sign a single decree – he clung to his chair with his two hands, and as soon as he extended one of his hands, the chair was immediately taken away from him.

Apparently, the authorities' current positions are incomparably stronger now almost in all spheres: in the sphere of legitimacy, the population's support, financial resources, the elite's consolidation, the opposition's marginalization and so on. Times have changed, while experts' thinking has remained the same. Meanwhile, it is exactly the authorities' strong positions that allow them not to engage only in the struggle for power (excuse me for this involuntary pun), but to concentrate on their direct duties – state building, economy and so on.

Nevertheless, the state of affairs with the evaluation of the motivation of the authorities and specific people is no so good. There is a steady impression that our pundits,

¹ <http://www.vz.ru/columns/2007/2/27/70127.html>

political experts and journalists know no other categories but “the strengthening/weakening of positions”, “apparatus win/loss”, “seizure/loss of initiative”, “diversion of attention”, “exploitation of an advantageous subject” and “loss/acquisition of control”. As a rule, things do not reach the point of discussing the programs and views of people that should be discussed – no-one wants this, and what’s more, you don’t have to think. The main form of experts’ existence is making comments on comments.

As a rule, very few people have the courage to make an assumption that the actions of this or that person are linked first of all to his aspiration to do good to his country and to support the state.

I am far from promoting the idea of refusing to analyze all traditional issues of the balance of forces, apparatus illusions, seizing/keeping power, reducing/increasing the electoral rating and so on. In this way, nothing will probably be left of political science.

However, the main result of excessive politicization is the deformation of conclusions and incorrect predictions. This is linked to the fact that a decent number of events, their motives and reasons remain beyond impartial analysis.

One of these insufficiently valued events is the formation of a new industrial policy.

2. New industrial policy

The first sign was Russian President Vladimir Putin’s meeting with representatives of the RUIE on 6 February 2007. Literally one day before the meeting, the presidential administration announced the subject of discussion: the switch to an innovative economy, the development of industry with deepened processing of natural resources and the modernization of industry for the development of production with a high added value. The result did not keep us waiting. For example, Vagit Alekperov immediately responded with an obligation: “...our goal and the task number one for Russian companies is to be able to process all the products we extract both on Russian territory and at Russian factories abroad.” Of course, many will fairly remind us that it is necessary to find out first whether Lukoil factories abroad belong to Russia or not, others will complain about the difficult fate of our business. However, “you cannot take words out of a song” – if Alekperov had disagreed, he could have kept quiet.

On 15 February, Defence Minister Sergey Ivanov was appointed deputy prime minister. Most of the peri-political audience sees Ivanov's appointment to the post of Russia's first deputy prime minister only in the context of the future presidential elections. However, the aspiration to strengthen the policy in the sphere of developing industry and innovative activities was a factor of no less importance for this appointment. Putin himself also made it clear: "One of the main problems which we are solving together is to make the Russian economy more innovative. In this regard, we agreed with the chairman of the government and I signed a decree on the expansion of the sphere of Sergey Borisovich Ivanov's responsibilities in the government of the Russian Federation, placing on him the duty to coordinate, along with the military-industrial complex, part of the economy's civilian sector as well... I hope that the positive things that have been done in the military-industrial complex will also be expanded with the help of the civilian sector". Concentrating on the political importance of this appointment, the expert community forgets about its substantial meaning. Regardless of which factor played a major role in this personnel decision, it is important that Sergey Ivanov will be working exactly on the basis of this logic – to strengthen the policy in the sphere of industrial development.

The third milestone was the session of the presidium of the State Council on 19 February 2007 in Volgograd. This event heard out a report from the working group of the State Council which is headed by O. Korolev. The subject of the session was "On measures to support the development of entrepreneurship in the Russian Federation". The result of this session will be the final drawing up and submission to the State Duma of the federal law "On state forecasting and socioeconomic development of the Russian Federation". The main emphasis is "not to examine, but to draw up": "It is necessary to draw up a system of measures aimed at increasing the share of processing industries with a high degree of added value, providing for subsidies for interest rates on credits allocated for the expansion of the production of high-tech products. Whether it is aircraft, shipbuilding or something else – it is up to the government to decide. But the aim is not to examine, but to draw up a system of measures, meaning the three-year budget period as well." (V. Putin)

All these events clearly fit into one line the importance of which can be in principle at the level of priority national projects. In fact, we are witnessing the emergence of another national project – the development of industry. What is more, the political persistence and

resources that can be potentially invested in this project can be at the level of priority national projects announced earlier.

3. The outlines of the new national project

Let's describe the main outlines of the new industrial policy that is being implemented in Russia.

➤ The switch to a new model of production.

A clear understanding of one of the main causes of our problems: outdated structure and organization of production. This structure is almost completely inherited from the Soviet period. While management structures had low effectiveness, the only possibility of ensuring the work of major production structures was to concentrate various stages of creating the end product on one territory and under single management. This made it possible to create quite a cheap mass product, but created strict links between the elements of the production chain which could not be flexibly re-arranged and adapted to changing requirements. Moreover, the production process had no possibility of choosing this or that supplier as their number was strictly limited. As a result, there was no competition, and effectiveness was low.

“The experience of successful industrial countries shows that it is necessary to develop a fundamentally new model of organizing production – a model oriented to the creation of innovations and relying on a competitive environment of developers, suppliers and dealers. Russia needs a model of industrial development which is organically oriented to interregional and global relations of cooperation” (from the report on the session of the presidium of the State Council).

➤ Assistance in restructuring industry

All developed countries encountered the need to restructure their industry as their economies developed. Private companies were unable to solve this problem on their own – they did not have the necessary means and ability to assess the demand of the state for their products for a long period of time. The situation itself required the state to participate in the process of restructuring and modernizing spheres of mechanical engineering. For example, having assessed prospects at the beginning and in the middle of the last decade, US defense companies, with the assistance of the US government, chose a strategy of strengthening by

means of integrating or taking over the enterprises of some of their traditional rivals. This type of restructuring was accompanied with the strengthening and stabilization of the industrial basis of the military-industrial complex.

It is this approach that Russia is planning to use wherever it is relevant: "...major holding companies are being set up in aircraft construction, microelectronics and the military-defense complex. I hope that we will be able to say the same thing for shipbuilding. A whole number of really large-scale and advanced projects have already been prepared for implementation... I should emphasize that the construction of holdings has never been and cannot be regarded as an end in itself. Integration is justified only when it helps enterprises increase the profitability of production and expand their presence on the market" (V. Putin).

➤ **The joint participation of the center and regions in the modernization of industry**

Modern world experience envisages support for industry not only at the state level, but also at the level of individual regions and cities. For example, the city of Shenzhen is in the lead in the sphere of mechanical engineering in China. In 2006, the gross product of mechanical engineering exceeded 23 billion US dollars, or accounted for 125 per cent of the same period of 2005. As the economy of Shenzhen grew, problems of unstable development emerged. They are caused by the permanent priority development of the light mechanical engineering industry. In recent years, the city has taken a number of political measures aimed at increasing support for mechanical engineering and promoting its development, thanks to which heavy industry has been developing and stronger foundations of growing mechanical engineering have been laid in Shenzhen.

The State Council session spoke about the need to "develop complex interrelated measures and about the joint responsibility of the center and regions for the success of the ongoing modernization of industry": "Both regional and local administrations should assist the establishment of new industrial enterprises, for example, in the issue of registering land plots and getting permits, including for using energy networks and public infrastructure, as well as help prepare qualified personnel in required specialties.

➤ **The key role of the state**

One of the deepest Russian misconceptions is the conviction that the role of the state in industrialized countries is insignificant – in most cases, this is a mistake. In Italy, the

Institute of Industrial Reconstruction (IIR), the largest state association in Italy, has the structure of a holding, is on the list of 10 industrial groups of the world and unites more than 150 enterprises in various spheres of industry. 327,000 people are working at IIR enterprises and companies. The annual turnover is about 50 billion dollars. In France, enterprises of various spheres of mechanical engineering are owned by the state. The state automobile corporation Renault, state-owned Snecma Group, which is one of the four largest engine building corporations in the world, and the state company AREVA, which emerged on 3 September 2001 following the merger of France's two major atomic companies, are well-known. Since the very first day, the company has enjoyed comprehensive support from the French government, and in the near future, the volume of the company's investments using state credits will exceed four billion dollars.

In full compliance with world experience, this approach will become part of a new industrial policy: "The state is the main shareholder of a significant amount of industrial assets. For us it is no longer enough to actively influence the formation of a new industrial environment – the state must create such an environment" (V. Putin)



The opinion of experts

*Dr. Inqilab Ahmadov,
Public Finance Monitoring Center*

In the recent period, talking about the further path of development and the need to form a verified economic policy, experts in post-Soviet countries often focus their attention on the formation of a separate industrial policy.

The factors that predetermine the need to form a separate industrial policy in these countries are expressed in the most concentrated way in the following:

The switch to the market economy, which was so painful for the economy as a whole, continues to be accompanied by the lack of organization, a clear-cut system, place and role of individual spheres in it, especially of the heavy industry, which does not fit into the framework of the liberal economy and needs separate protection.

The large industry has long become transnational thanks to globalization, and the world market of goods produced by these spheres is strictly controlled by the OECD. New countries find it extremely difficult to find a niche for their industry on the world market. In these conditions, leaving this job to the enterprises themselves is tantamount to losing them.

Although market relations have been developing for more than 16 years, the established economic situation is still accompanied by major flaws, and the market of goods and services is much more developed than that of capital and work force. As a result, there is no concentration of capital yet, and on the surface, we see mainly “single seekers” rather than real capitalists.

These well-known factors in some countries have been supplemented with another important aspect – thanks to rich natural reserves, the favorable situation in the world has provided them with tremendous revenues which the state is trying to manage in the name of the future of the nation. This seriously prompts the governments in these countries to draw up an industrial policy, turn it into a priority of the government and use part of oil revenues in this direction.

Of course, in the modern period, it is important to identify priorities and plan the further path of industrial development in every country, even in a very small country. However, judging by the tone of the discussions, we are talking not just about the forecasting of industrial enterprises, but something even more serious. In most cases, we are talking about the drawing up of a state industrial policy that might result in the restoration of individual spheres, which sometimes grow regardless of market motivation. In other words, we mean that “just like in any state, it is necessary to form one’s own national industrial potential”, which actually runs counter to the modern trend of

development. In conditions when there are incomparably higher oil revenues “around”, this postulate might turn into a dangerous trick with a loss of millions.

Also, it is known that the main symptom of “Dutch disease” – de-industrialization – objectively creates extremely unfavorable conditions for such a policy. The task is to smooth out these negative consequences to the maximum extent by means of the services sector, which as is known is not a sellable product, i.e. it has no import analogues.

In view of the aforesaid, I think that it is necessary to be extremely careful about the subject of industrial policy, taking account of the current economic realities in the country.

***Dr. Pavel Teplukhin,
President of the Troika Dialog company***

“There can be no industrial policy in a market economy. It can exist only in a planned economy, because the role of the headquarters of a large corporation there is played by the State Planning Committee. In a market economy, the industrial policy is carried out at every specific enterprise by every specific manager: at their own risk, with their own salary or their own bonuses. He runs the risk while taking decisions. An industrial policy at the state level is absurd.”¹

“We have no banking system because we have the Savings Bank. At some point in the past someone hesitated and did not assume responsibility for privatizing and liquidating the Savings Bank. As a result, 10 years later there is still no banking system in Russia, because there is no competition. There is the same situation with Gazprom. Someone failed to create competition in the gas sphere, as is the case in the oil sphere. As a result, the country which is the largest gas producer in the world is suffering from a shortage of gas. It is absurd. All this is a result of the industrial policy in market conditions.”²

***Ivan Rodionov,
Professor of the State University, the High School of Economics***

“The industrial policy is part of general policy and economic policy. When someone says that it necessary to deal with the industrial policy without thinking about the economic policy, this causes certain suspicions because this leads to support for the spheres and enterprises that are linked to politicians’ preferences, not to the interests of society.”³

“The industrial policy, if it really exists and if the state has adopted, discussed, approved and publicized it, agreed it with the legislative branch of power and included it in a relevant budget that has also been approved, can be established on the basis of two main

¹ Павел Теплухин. В рыночной экономике промышленная политика на государственном уровне – абсурд. http://www.opec.ru/point_doc.asp?d_no=34351

² Павел Теплухин. В рыночной экономике промышленная политика на государственном уровне – абсурд. http://www.opec.ru/point_doc.asp?d_no=34351

³ Иван Родионов. Представление о промышленной политике у государства и у частного бизнеса не может быть одинаковым. Они исходят из разных критериев. http://www.opec.ru/point_doc.asp?d_no=34271

approaches. The first one is like in the 1930s when we relied on our own forces and restricted consumption in order to increase our savings, and solved issues of development at the expense of the population and by mobilizing our own resources. The second one is to involve private capital in this process, create attractive conditions for capital to join projects that are of interest to the state for economic and industrial policy considerations.”⁴

Dr. Andrey Shastitko,

Deputy director-general of the fund Bureau of Economic Analysis, doctor of economics and professor of the faculty of economics of Lomonosov Moscow State University

“...When you formulate the industrial policy, the key sign of its formulation is the aspect of distribution when you construct mechanisms of redistributing resources in favor of either individual groups of entrepreneurs or individual spheres. For this reason, the generic characteristic of the industrial policy is in fact defined as handover of resources. Of course, the mechanism of state intervention is used in this process. I think that all other interpretations of the industrial policy, this way or another, act on this scheme related to the aspect of distribution. The problem of such an industrial policy is that the incentives of the main characters are distorted as a result. The competitive policy does not mean the handover by the state of some resources to an entrepreneur, it is only about creating and maintaining competitive conditions on the goods market. This means that the key sign is the regulation of the incentives of economic agents that might cause some distributing consequences. But these consequences and distributing characteristics are not planned by the state. This is a result of the entrepreneurs’ game. The industrial policy suggests from the beginning what category of economic subjects should get various forms of support: whether in the form of subsidies, tax benefits or customs privileges.”⁵

Yuriy Simachev,

Deputy director of the Interdepartmental Analytical Centre

“The trouble is that we, alas, have not yet realized what an industrial policy is. When these words are pronounced, most people perceive them either as subsidies from the state or as the fact that the state of individual spheres will strongly aggravate because of increasing deductions into the budget, and the state will start making ineffective use of these means in the future. There are real reasons for such a perception of the industrial policy because there are also too many people, including within the state, who want to strengthen the positions of their business and participate in the process of “impounding and redistributing resources”. “Actually, I feel a bit apprehensive when someone says “support

⁴ Иван Родионов. Представление о промышленной политике у государства и у частного бизнеса не может быть одинаковым. Они исходят из разных критериев. http://www.opec.ru/point_doc.asp?d_no=34271

⁵ Андрей Шаститко. Фундаментальная функция государства - защита прав собственности. http://www.opec.ru/point_doc.asp?d_no=43430

for different spheres” in the process of discussing the industrial policy. It is not the goal, but only one of possible mechanisms with very limited and careful use. Because of this approach, the industrial policy causes fairly irritates and even angers many economists because sometimes it is an attempt to cover the narrow corporate interests of this or that private business. First, there is some garnish of explanations as to why we need this policy, and then everyone agrees - let’s support this or that sphere, meaning in reality – let’s support this or that enterprise.”⁶



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⁶ Юрий Симачев. К поддержке отраслей промышленную политику сводят те, кто планируют либо «пилить преференции», либо крутиться где-то рядом.
http://www.opec.ru/point_doc.asp?d_no=34350