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OIL REVENUES: CHALLENGES FOR AZERBAIJAN
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OIL REVENUES AND COMPETITIVENESS



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Another round table discussion on the project was held on June 18 2007. The subject of the round table was the following: **“Oil revenues and competitiveness”**. Alakbar Mammadov, the president of the National Confederation of Organizations of Entrepreneurs

(Employers) of the Azerbaijan Republic, Ilgar Asadov, a department head at the Confederation and Zohrab Ismayilov, the president of the Centre to Assist the Free Economy, made reports at the round table.

The round table was attended by: Alakbar Mammadov (the National Confederation of Organizations of Entrepreneurs (Employers) of the Azerbaijan Republic), Ilgar Asadov (the National Confederation of Organizations of Entrepreneurs (Employers) of the Azerbaijan Republic), Zohrab Ismayilov (the Centre to Assist the Free Economy), Sabit Bagirov (Entrepreneurship Development Foundation); Eyub Huseynov (UFC); Namik Azizov (Association of managers); Irada Eyvazova (Center for Economic and Political Research); Alovzat Bayramov (Entrepreneurship Development Foundation); Suheyra Jafarova (Eurasia Foundation); Aydin Nizamov (EITI NGO coalition); Mushviq Bayramov (State Oil Fund); Rumade Zeynalova (“AIS beton” EIM company); Etibar Farziyev (“Inar” company); Anar Bayramov (“Biznes dünyası” company); Asif Aliyev (SPACE TV); Kazim Babayev (Azersun Holding); Faxraddin Ibrahimov (“Texmashservis” company); Eyub Huseynov (Free Consumers Union); Eldar Gojayev (Azerbaijan Marketing Association); Tapdiq Piriyevev (“Genjlik” Ltd); Vuqar Aliyev (“NAN” Ltd); Ahmed Ashurov (“Avanqard” company); Nabat Qaniyeva («Xazar-B” company); Samir Nasirov (“Aynur-Sevis” Ltd); Mikayil Babayev (“İnşaat-Sevis” Ltd); Ruslan Atakishiyev (Global Economic Research Center); Elchin Abbasov (Global Economic Research Center); Panah Ismayilov (Global Economic Research Center); Solmaz Shiraliyeva (Kerid); Metanet Nasibova (“Новости-Азербайджан” International Information Agency); Vuqar Agayev (AzerTAC Information Agency); Rafiq Aliyev (“Say” newspaper); Anar Asadov (“Yeni iqtisadiyyat” magazine); Rauf Əliyev (Novosti - Azerbaijan).



The aspects of the influence of oil revenues on the competitiveness of the private sector

Alakbar Mammadov,
president of the National Confederation of Organizations of Entrepreneurs (Employers) of the
Azerbaijan Republic

The theses of the report

1. The process of globalization in the modern period.
2. Azerbaijan's oil strategy. The tendency of the development of Azerbaijan's oil sector. Expected development and risk aspects in this sphere.
 - The high pace of oil extraction;
 - The high growth in GDP;
 - The growth in budget revenues;
 - The growth in budget spending;
 - The sharp fall in foreign investments;
 - The fall in the number of oil sector employees;
 - The strengthening of the manat;
 - The fall in competitiveness in the real sector of the economy;
 - The slackening of reforms;
 - An increase in state spending;
 - An increase in spending on the social sphere.
3. Azerbaijan's integration into the global economic system. Its membership of the World Trade Organization
4. The situation in Azerbaijan's industrial sector in the run-up to membership of the WTO.
 - GDP worth **17.7 billion** manats was produced in Azerbaijan in 2006.

- The gross domestic product manufactured in four months of 2007 totalled 6,884.2 million manats.
- This is **37.1 per cent** or **1,827.8 million** manats higher than in the same period of the last year.

During this period, Azerbaijan produced added value:

- Up to 4,405.7 million manats or 64 per cent of GDP in industry;
- 141.2 million manats (2.1 per cent) in agriculture, hunting and forestry;
- 408.4 million manats (5.9 per cent) in construction;
- 342.1 million manats (5 per cent) in transport;
- 107.4 million manats (1.6 per cent) in communications;
- 416 million manats (6 per cent) in the sphere of wholesale and retail trade, as well as in the sphere of services to repair vehicles, domestic products and so on;
- 43.8 million manats (0.6 per cent) in the sphere of services in hotels and restaurants;
- 520.7 million manats (7.6 per cent) in the sphere of social services and other services.

59.6 per cent of GDP were produced in the sphere of oil extraction and 33.2 per cent in the non-oil sector. In comparison with the same period of 2006, the production of the added value in the sphere of oil extraction increased by 62.9 per cent and in the non-oil sector – by 7.8 per cent.

71.5 per cent of industrial products were manufactured in the mining sphere, 21.4 per cent in the processing sphere, 7.1 per cent in the production and distribution of electricity, gas and water.

The direction of oil revenues as an investment into the development of the non-oil sector of industry:

- The development of the infrastructure (electricity, gas, water, irrigation systems, transport and so on);
- The development of the telecommunications sphere. The application of information technology and computer hardware and the development of Internet services;

- State policy to encourage export. AZPROMO;
- The policy of the state and its participation in the effective management of enterprises. The Azerbaijan Investment Company;
- The stimulation of business development (resource centers, business incubators, technoparks and so on). The activities of the Azerbaijani Confederation of Entrepreneurs in this sphere;
- The development of human resources;
 - The development of the business education system;
 - Programs on the improvement and development of professional education and the system of re-qualification.
- Increasing the industrial export potential;
 - The implementation of innovative projects;
 - The promotion and application of quality management systems.

In four months of 2007, the volume of the general trade turnover between the Azerbaijan Republic and 109 countries of the world totaled 2,055.2 US dollars, including 919.1 million in export and 1,136.4 million US dollars in import, while the negative balance was 217 million US dollars.

In 2007, of products exported abroad:

- 73.8 per cent were mineral products, including oil and oil products – 72.8 per cent;
- food products – 11.7 per cent;
- means of land, air and water transport – 4.8 per cent;
- non-precious metals and their products – 4.2 per cent;
- machines, mechanisms and electro-technical equipment – 1.6 per cent;
- chemical industry products – 1.5 per cent;
- textile materials and products – 1.5 per cent;
- plastic masses, rubber and their products – 0.4 per cent;
- other products – 0.5 per cent.

The presentation of Ilqar Asadov, a department head at the National Confederation of Organizations of Entrepreneurs (Employers) of the Azerbaijan Republic¹



**National Confederation of Entrepreneurs (Employers)
Organizations of Azerbaijan Republic**

SEMINAR

“The factors of the influence of oil revenues on the competitiveness of Azerbaijan’s private sector”

Baku, June 18, 2007

The factors of the influence of oil revenues on the competitiveness of Azerbaijan’s industrial sector

The competitiveness of a product is a decisive factor of its successful sale on a developed competitive market. This is an idea that involves many factors and reflects the compliance of a product with market conditions and its correspondence not only to specific quality, technical, economic and aesthetic requirements of consumers, but also to other conditions of sale (channels of sale, the level of services, advertising and so on).

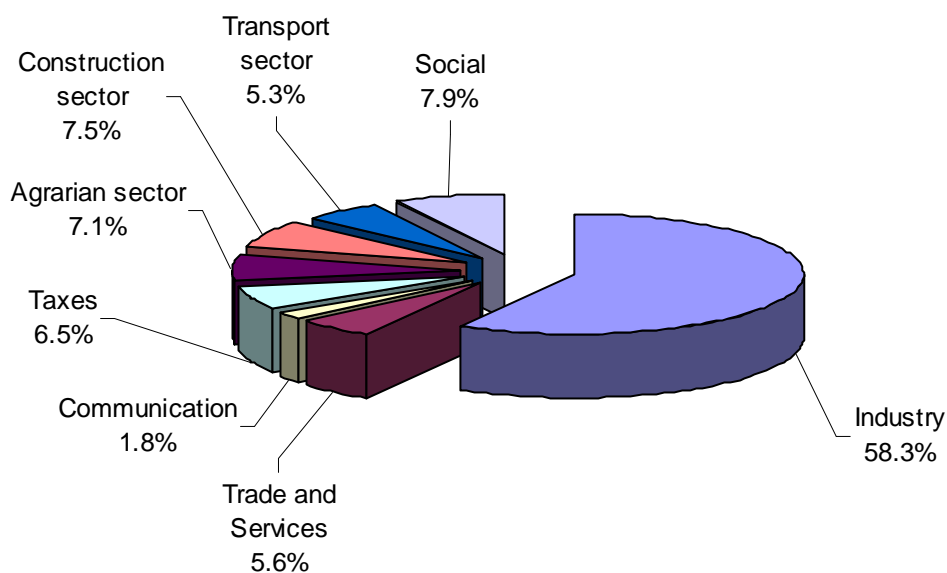
Competitiveness and quality is a combination of the possibilities of a country and every manufacturer to create, produce and sell products and services.

¹ This presentation was made at the 18 June 2007 round table discussion of the Fund to Assist the Development of Entrepreneurship and Market Economy.

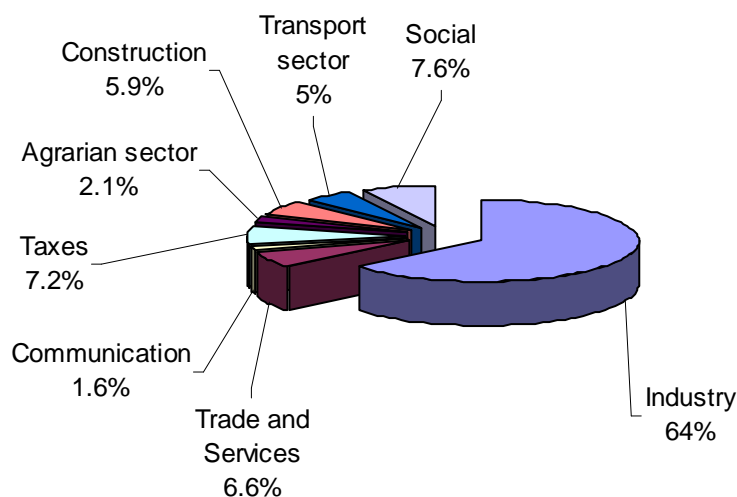
The main factors that define competitiveness:

- The internationalization and openness of the economy;
- The level of a country's economy;
- The policy of the government and its participation in the economy (the legal base, regulatory mechanisms and the state of civil society institutes);
- Financial institutes and means (their volume and "transparency");
- The physical infrastructure, including the environment and energy resources;
- State management competence;
- Scientific-technological potential;
- Human resources, including labor skills and accessibility of education;
- Employment;
- Working time;
- Social security and the state of the social security system;
- Equality of opportunities;
- Living standards and the attitude to labor.

The structure of GDP in 2006



The structure of GDP in the first quarter of 2007



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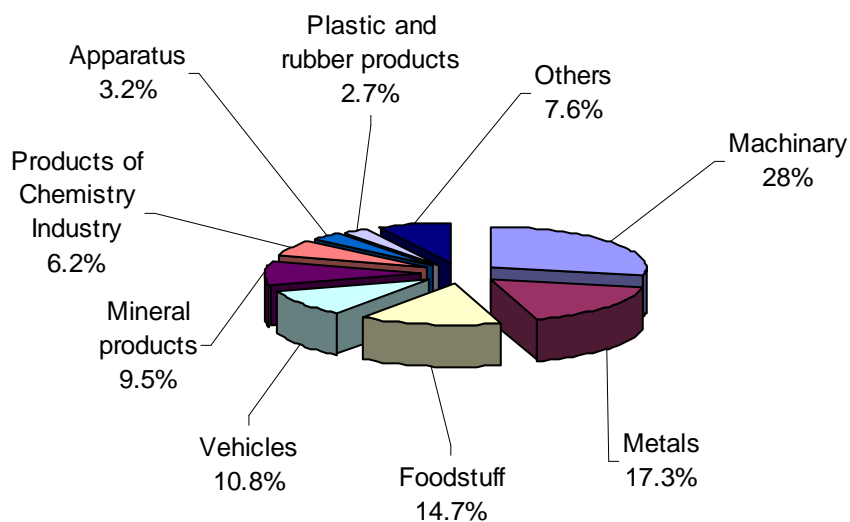
In four months of 2007, the volume of the general trade turnover between the Azerbaijan Republic and 109 countries of the world totaled 2,055.2 US dollars, including:

- export - 919.1 million US dollars;
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- the negative balance was 217 million US dollars.

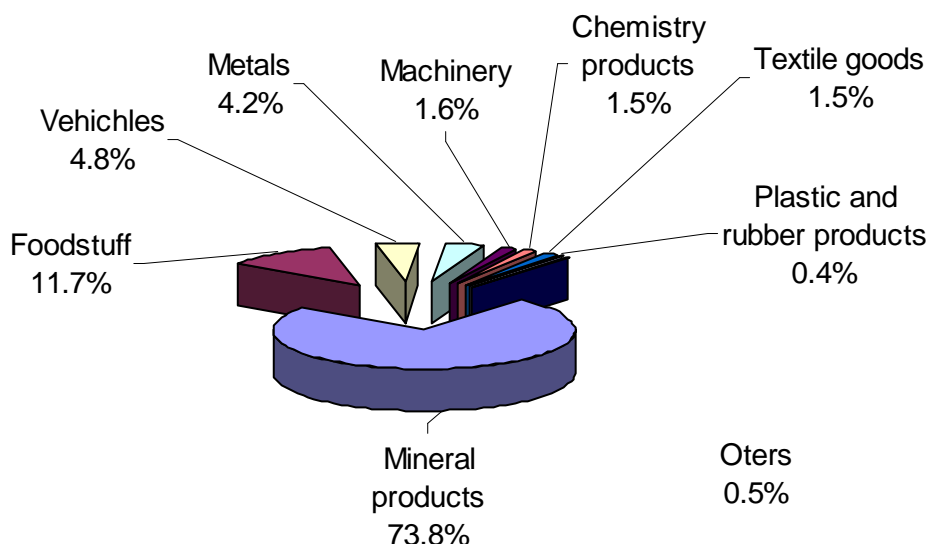
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- textile materials and products – 1.5 per cent;
- plastic masses, rubber and their products – 0.4 per cent;
- other products – 0.5 per cent.

The structure of import into Azerbaijan in the first quarter of 2007



The structure of export from Azerbaijan in the first quarter of 2007



The direction of oil revenues as an investment into the development of the non-oil sector of industry:

- The development of the infrastructure (electricity, gas, water, irrigation systems, transport and so on);
- The application of information technology and computer hardware and the development of Internet services;
- The effective management of enterprises and the creation of a favorable business environment;
- The stimulation of business development (resource centers, business incubators, technoparks and so on);
- An increase in financial resources;
- The development of human resources:
 - The development of the business education system;
 - Programs on the improvement and development of professional education and the system of re-qualification
- Increasing the industrial export potential:
 - The implementation of innovative projects;
 - The promotion and application of quality management systems.

Azerbaijan's integration into the global economic system. The process of its membership of the World Trade Organization

The situation in Azerbaijan's industrial sector in the run-up to membership of the WTO.

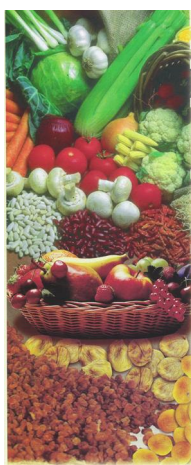
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The direction of oil revenues as an investment into the development of the agricultural sector:



🌱 The creation of an agro-service network;

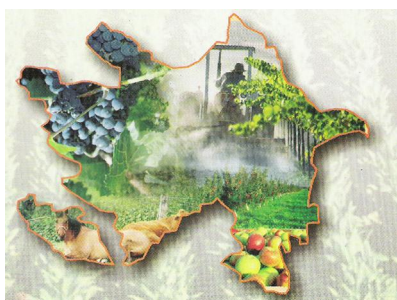
- Supply of agricultural equipment and tools;
- Supplying companies;
- Warehouses;
- Processing enterprises;
- Networks of sale and export opportunities;

🌱 Diversification, expansion and accessibility of financial resources;

🌱 The creation of a network of consulting services for agricultural enterprises and the introduction and application of new technologies.

The direction of oil revenues as an investment into the development of the agricultural sector:

- The development traditional agricultural spheres with export potential:



- Tea-growing;
- Flower-growing;
- Silkworm;
- Tobacco;
- Citrus-growing;
- Fruits and vegetables;
- Others;

- The production of eco-friendly agricultural products.

The direction of oil revenues as an investment into the development of the agricultural sector:



- The implementation of innovative projects in the agricultural sphere;
- The application of quality management and food security systems;
- Development of human resources
- Increasing the level of business education;
- Development of professional education and the system of re-qualification.



State investment expenses – a locked chest inside the budget

Zohrab Ismayilov

The Centre to Assist the Free Economy

The increase in Azerbaijan's oil revenues beginning from 2005 is causing serious changes in the structure of the state budget. This change manifests itself in growing direct incomings from the oil sector in the structure of revenues on the one hand, and in a sharp growth in funds allocated for construction work in the structure of expenses on the other. According to changes made to the 2007 state budget at the end of May, the funds that will be channeled into capital investment are planned to be 1,916.9 million, which accounts for 30.4 per cent of all budget expenses. The annual rapid growth in these expenses, the basis of which is construction work and refurbishment of state facilities, can be regarded as a manifestation of the fact that the country's budget priorities are being re-oriented from the social sphere to the construction sphere.

Although at a time when construction has turned into the most lucrative business in Azerbaijan in recent years, the allocation by the government of 30.4 per cent of budget expenditure for construction work is not accompanied with specific policy documents, the change in priorities is a reality. It is also a reality that people sitting on the country's legislative body approve general figures without demanding the structure of state investment expenses, and demonstrate that this is "something useful for the country". Just like the forecast of these expenses is approved with their structure at the Milli Majlis, their implementation is also approved with general figures. In this case, the supreme legislative body, not to mention the public and rank-and-file citizens, is turning a blind eye to the way the expenditure article, which forms a significant part of the state budget, is implemented, what projects it is spent on, how much of it is spent and the quality of this spending. What we know are only general figures and as they grow, there appear people who take pride in them, saying that our country is developing.

The volume and dynamics of investment expenses allocated from the state budget in 2005-2007

Indicators	2005 (execution)	2006 (execution)	2007 (forecast)
State investment expenses (in million manats)	159.9	879.6	1,916.9
<i>The pace of growth compared to the previous year (per cent)</i>	50.0	45.1	117.9
<i>The share in final budget expenditure (per cent)</i>	7.5	23.2	30.4

When the state budget was approved for 2007, state investment expenditure was planned to be 1,546.5 million manats. Although this large expenditure article was executed with a deficit in the first quarter of 2007, it increased by 370.4 million manats as a result of changes made to the budget at the end of May and reached 1,916.9 million manats. It seems that although it was executed with a deficit, the attractiveness of construction for the government is increasing.

So what is behind these large figures that were quietly approved by the Milli Majlis? When we look for an answer to this question, we find out that the expenditure article of the budget called “state investments” is in fact a budget within the country’s budget and its organizational structure covers most of the country’s ministries, state and government organizations, state companies and local executive authorities. Most of the projects included in the State Investment Program which was approved by the Cabinet of Ministers in February this year envisage the reconstruction of the social infrastructure and the refurbishment of state facilities. Of these funds, 349.9 million manats (18.25 per cent) will be channeled into transport, 137.5 million manats (7.17 per cent) into the sphere of water reserves and irrigation, 106.8 million manats (5.57 per cent) into energy, and 64.6 million manats (3.37 per cent) into culture and tourism. At the same time, the government is planning to spend 67.4 million manats on the sphere of youth and sports, 91.1 million manats on schools and 58.8 million manats on health care. In 2007, 58.6 million manats will be spent on the refurbishment of buildings belonging to supreme executive authorities and 195.5 million manats on the refurbishment and reconstruction of facilities belonging to the law-enforcement agencies and on the purchase of vehicles. The volume of funds to be allocated from the “investment budget” for entrepreneurship and agriculture, which are of special importance in terms of developing the non-oil sector, is only 123.8 million manats. We have to point out that 74 million manats of this money have been allocated to the National Fund to Assist Entrepreneurship and 9.4 million manats to the State Agency for

Agricultural Credits. In other words, these are credits earmarked for entrepreneurs and farmers. Moreover, 37.5 million manats have been allocated to the Agroleasing joint-stock company, and this sum will be spent on the purchase of agricultural equipment that will be handed over to farmers on the basis of leasing.

The structure of state investment expenses allocated from the state budget to different spheres in 2007

№	Structure of state investment expenses in different spheres	Final sum (in thousand manats)	Special share
1	Economic reforms	2,748	0.14
2	Transport	349,895	18.25
3	Communications	3,185	0.17
4	Water reserves and irrigation	137,533	7.17
5	Energy	106,838	5.57
6	Electricity, gas and heating	72,953	3.81
7	Ecology	2,413	0.13
8	Culture and tourism	64,648	3.37
9	Sports	67,464	3.52
10	Law-enforcement system	195,541	10.20
11	Entrepreneurship and agriculture	123,848	6.46
12	Science	2,041	0.11
13	Education	91,195	4.76
14	Health	58,890	3.07
15	Social security	25,125	1.31
16	Refurbishment of administrative buildings of supreme authorities	58,563	3.06
17	Other projects	183,643	9.58
18	<i>Funds with an unknown structure *</i>	370,400	19.32
	Total	1,916,923	100.00

* Projects related to additions made to the state investment expenses after changes to the draft budget. They have not been approved by the Cabinet of Ministers yet.

A considerable part of the funds allocated to the transport sector, which forms the largest part of the investment budget (18.25 per cent), has been allocated for road reconstruction projects (263.7 million manats) and the rest for Baku metro projects (44.7 million manats), for the reconstruction of Zaqatala and Lankaran airports (15.4 million manats), for projects of the Railway Department (25 million manats) and for the purchase of vessels and equipment for the Caspian Shipping Company (one million manats). The second largest section of the structure of state investment expenses (10.2 per cent) are projects on the reconstruction of administrative buildings and facilities belonging to the law-enforcement agencies and on the purchase of means of transport. Of these funds, 65 million manats fall to the share of the Emergencies Ministry, 32 million manats - the Ministry of National Security, 25.2 million manats - the Ministry of Justice, 14 million manats - the

Supreme Court, 10.8 million manats - the Main State Security Service, seven million manats - the Ministry of Internal Affairs, two million manats - the Prosecutor-General's Office, and 1.5 million manats - the Ministry of Defense. Of the funds allocated to the Emergencies Ministry, 40 million manats will be spent on the reconstruction and refurbishment of facilities, 20 million manats on the purchase of means of transport, five million manats on the prevention of natural disasters and on compensation for disaster victims. All the money allocated to the Ministry of National Security, the State Border Service, the Main State Security Service and the Ministry of Internal Affairs and 99 per cent of the money allocated to the Ministry of Defense are planned to be spent on the construction, reconstruction and refurbishment of facilities. The money allocated to the Prosecutor-General's Office will be spent on the refurbishment of the main building and the office of the anti-corruption agency. The money earmarked for the Supreme Court will be spent on the construction of a new administrative building.

The investment allocated for the sphere of water reserves and irrigation from the 2007 budget accounts for 8.9 per cent of the "investment budget". In general, this sphere can be regarded as one of the government's priorities in 2006-2007. We should point out that along with the state budget, SOFAR has also allocated a lot of money for this sphere. In 2006, 119.7 million manats were spent on this sphere by SOFAR. A total of 260.52 million manats were allocated for the water reserves and irrigation sector from the SOFAR budget of 2007, which accounts for 26.7 per cent of the general expenses of the fund. Of the investments allocated for this sphere from the budget, 65.8 million manats will be spent on projects of the Azersu joint-stock company and 71.7 million manats on projects of the Melioration and Water Economy open joint-stock company.

The funds allocated to the Azerenergy joint-stock company from the investment budget will be channeled into the construction of module stations and into paying the share of the Azerbaijani side in energy projects implemented jointly with foreign partners. The funds allocated for electricity, gas and heating projects will be spent on the installation of metering devices and on the reconstruction of boiler houses in Baku.

Most of the investments allocated for education from the budget will be spent on the "mass school building campaign" (85.3 million manats) and the rest on the construction of new buildings for six state-owned institutions of higher education in Baku and on the refurbishment of existing buildings. The scale of the funds allocated for health care and sports from the investment budget shows that beginning from this year, the construction of medical centres and sports complexes will turn into a campaign as well. At the same time, the construction of housing for war veterans and martyrs' families in regions of the country will expand. 25.1 million have been allocated for this purpose.

Some money has been allocated to the presidential administration, the Cabinet of Ministers and the Milli Majlis from this year's state investment expenses, i.e. 40.9 million

manats from the “investment budget” will be spent on the refurbishment of the presidential office and 6.1 million manats - of the Cabinet of Ministers. It seems that the reconstruction of the parliament building, which began in 2006, will continue this year as well. 11.5 million manats have been allocated for this purpose.

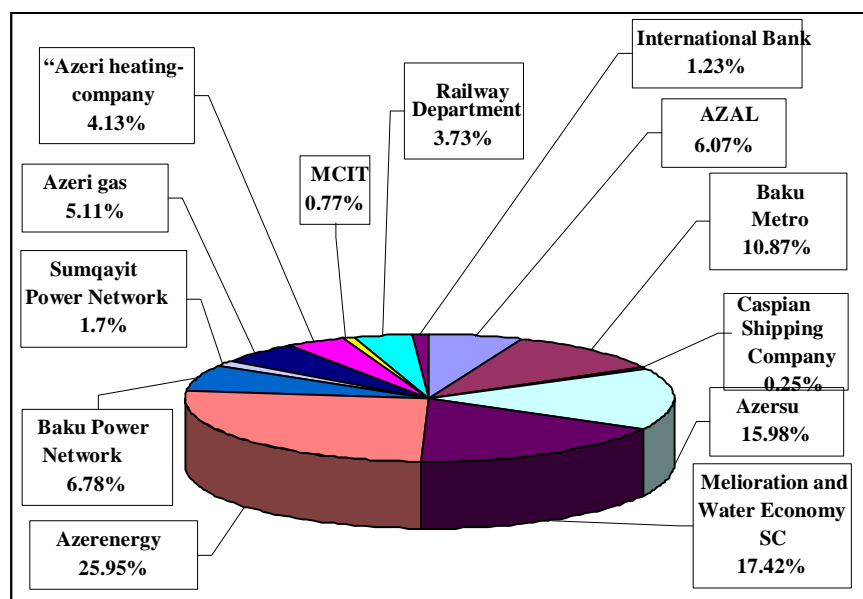
The increase in oil revenues will also make cultural facilities “happy” this year. A total of 64.6 million manats will be allocated for this sphere together with tourism. This money will be spent on the reconstruction of a number of historical monuments and cultural centres and on the development of tourism.

The “investment budget” is huge and is full of projects and facts of special interest. The fact that most of the money allocated to the Emergencies Ministry and other militarized structures is presented as “the reconstruction and refurbishment of facilities”, and plans to build “new types” of fountains worth 12 million manats in Baku are interesting and make one smile. At the same time, though it is planned to allocate five million manats “to prevent emergencies and pay compensation to victims”, the ministry has been given an additional 60 million manats to implement this (for refurbishment and for purchasing means of transport), which gives rise to another question. It turns out that in order to carry out work worth five million manats, “comfortable conditions” worth 60 million manats will be created. If we take a scientific approach to the idea of investment, even the authors of projects will probably not be able to explain what sort of material and social benefits expensive fountains in Baku will yield. We can only hope that the expensive fountains will arouse a “feeling of pride” in residents, or the life of marriages in Azerbaijan will extend after 10 million manats are spent on the refurbishment of the Saadat Palace.

Another interesting point in the “investment budget” is that state companies are given “additional subsidies”. In 2007, 27 per cent of budget investments or 411.7 million manats were allocated to state companies. As a result of the changes that were made to the budget, this sum is expected to increase even further. These companies among which there are major taxpayers have a monopoly on their spheres and are working on the principle of self-financing. Despite that, these enterprises are honoring their tax obligations at a very low level. However, the government is not planning any structural changes in these companies. Like in the Soviet period, these companies are continuing to work in a relatively uncontrolled situation. What is more, companies of the energy sector are getting indirect subsidies from the state budget. We should note that the volume of indirect subsidies totalled 300 million manats in 2006, and is planned to be 330 million manats in 2007.

The allocation of 5.06 million manats to the International Bank from the “investment budget” without indicating any specific purpose is not understandable at all, because the assets and revenues of the International Bank which has a considerable influence and authority in the banking sector are growing year by year.

The structure of funds allocated to state enterprises from the 2007 “investment budget”



As for major taxpayers, these state companies are expected to get 238.2 million manats from the “investment budget” in 2007. In 2006, the total amount of taxes paid into the state budget by major state taxpayers, except for SOCAR, was only 111.4 million manats. In other words, these companies paid 17.05 per cent of taxes calculated by the Tax Ministry and their tax debts in 2006 totaled 541.9 million manats.

Taxes paid by major taxpayers and the amount of money they received from the “investment budget” (in thousands of manats)

Major taxpayers	Calculated taxes (2006)	Tax payments (2006)	Level of payment (per cent)	Tax debts (2006)	Funds allocated by the state as part of state investment expenses (2007)
Azerenergy company	262,712	15,500	5.9	247,212	106,838
Azerkimya state company	41,538	2,700	6.5	38,838	-
Azersu company	43,902	5,400	12.3	38,502	65,800
AZAL state concern	101,105	18,300	18.1	82,805	25,000
Caspian Shipping Company	8,065	1,500	18.6	6,565	1,043
Azeri gas company	109,804	28,000	25.5	81,804	21,053
State Railway Department	57,333	21,500	37.5	35,833	15,350
MCIT	28,816	18,500	64.2	10,316	3,185
Total	653,276	111,400	17.05	541,876	238,269

Thus, we can draw the following conclusions while analyzing the structure of state investment expenses allocated from the budget in 2007.

First, the volume of funding for infrastructure projects sharply increased in 2007 and one of the main reasons for this is that the cost of projects has risen.

Second, a considerable part of the “investment budget” (13.26 per cent) will be spent on the refurbishment of buildings and facilities belonging to government agencies and law-enforcement bodies, and there is no point in expecting financial or social benefits from this.

Third, although major taxpayers have created tax debts, 12,4 per cent of budget investments in 2007 will be channeled into the economy by these enterprises. The lack of structural reforms, transparency and accountability in these companies questions the effectiveness of those investments.

Fourth, the purpose of the “construction boom” in the sphere of education, health and sports is not quite clear and these campaigns are not based on specific programs in terms of effectiveness.

Fifth, an increase in credits to the agrarian sector along with entrepreneurship and support for leasing operations from the budget investments give a certain incentive to the development of the non-oil sector. At the same time, there are enough problems with the correct use of these funds and transparency in this sphere.



Competitiveness: the main task for today¹

Mikhail Gelvanovskiy

Although the word “competitiveness” has been pronounced very often at the highest level in the recent period, both this idea and problems related to ensuring competitiveness require serious analysis. Without this, neither business circles nor state administrative bodies are in a position to formulate correctly the tasks facing the country and economic subjects.

Many-sided competitiveness

Competitive advantages can be borne by various subjects. These are types of products, enterprises and groups of enterprises, and finally, states and unions of states (regional, political or ethno-cultural) that are struggling for leadership in various spheres of international economic relations.

Competitiveness of goods

This is the simplest and the most visible part of the “iceberg” which is open to common viewing and comprehensive analysis. The competitive struggle at this level is waged for the consumers’ money.

The relative simplicity of characteristics in which the competitiveness of goods can be expressed makes it possible to reduce them to integrated indicators (for example, to the coefficient of the correlation between the price and quality) and compare them between each other. At the same time, even though the assessment of the competitiveness of goods is relatively simple, the complexity and diversity of the modern “goods world” requires different approaches to this assessment. Every sphere of commercial activity has its own

¹ <http://www.bforum.ru/?rubr=5&issue=6&nid=58&action=show>
Бизнес Форум №12/2004 – 1/2005: Справочник бизнесмена

conditions for forming and supporting competitive advantages, while the result of the competitive struggle depends on the creative abilities of participants in the market.

Competitiveness of enterprises

It is exactly at the level of enterprises and various associations of manufacturers that competitive advantages of goods are created and the competitiveness is formed, which follows from the general competitive potential of an enterprise.

The target of the competitive struggle is not just consumers' money, but also satisfaction of wider requirements – to create a steady inflow of investment funds to develop the company, to keep the market niches that have already been occupied and to find new markets, while competitiveness is characterized by three groups of indicators.

The first one is for a company to have certain resources. These are not just mineral resources or a good geographic location and favorable climatic conditions, but also the availability of qualified staff and a developed infrastructure, basic capital and so on in a certain region.

The second group of indicators testifies to the so-called “operational effectiveness” of a company described by indicators such as:

- profitability of the main directions of activity and the level of expenses on the main types of products;
- the use of high technology and the technical level of products in comparison with the main rivals on the national and international market;
- the degree of the differentiation of a company's activity and availability of “product trails”;²
- the share of the company on the national and international market and the degree of their steadiness during a certain period of time;
- the index of prices for the products of the company in comparison with the dynamics of prices in this sphere and/or on the world market;
- the degree of export orientation and/or import dependence and a number of others.

² The gamma of accompanying products “linked” to the main product (for example, devices and parts for tractors to carry out various types of work or peripheral computer hardware)

It is important to point out that in modern conditions, operational effectiveness is capable of ensuring only temporary advantages. The reason is the quick spread of advanced methods of increasing the effectiveness of the organization of production, reducing expenses and increasing the quality of products, as well as the technological and organizational rapprochement between companies, according to the leading specialist in the sphere of competitive strategy and struggle on the international market, professor of the business administrative department at Harvard Business School, Michael Porter.

Finally, the third most important and probably already dominating direction of forming specific advantages of a company is the drawing up by the company of an effective development strategy. Porter suggested forming this strategy, orienting oneself to unique types of company activity. The idea of the competitive strategy, in his opinion, can be expressed in two words: “be different”. This requires a well-thought out choice of types of activity that will ensure the unique nature of the product, service or their combination.

Special attention should be paid to strategic planning – well-known French writer Francois de La Rochefoucauld once said that “he who is too zealous in small things is usually incapable of great things”. As the bottom line of a company’s behavior, the strategy always suggests a choice in favor of solving the main task and refusing everything that gets in the way of that. In order to form a competitive strategy of the company, the principle of a systemic nature has the highest priority, experts believe.

We have to say that companies’ aspiration to be different creates objective obstacles to comparative assessments of their competitive positions, which prompts analysts, apart from making traditional comparisons, to see ways of guessing rivals’ strategic ideas. This task is not so easy, because companies, especially big companies, build their strategic plans for quite a long period and sometimes even for centuries ahead.

Competitiveness of national economies

The level of the national economy, in essence, is a basis for forming the competitiveness of enterprises, corporate unions and spheres.

Approaches to the problem of assessing states’ competitiveness have undergone an evolution from the assessment of the effectiveness of a country’s foreign economic activity

by comparing expenses, prices and factors of production related to this activity, by expanding the circle of these factors to the analysis and registration of the nature of the common institutional and social base that forms the country's economic system. For example, the presidential commission to study problems of the country's long-term competitiveness, which was set up in the USA in 1985, prepared a report the authors of which rejected "narrow approaches" based on the criteria of the rate of currency, trade balance and export quota and proposed the following definition of national competitiveness: "This is a country's ability to produce under fair market conditions goods and services that meet the requirements of the world market, at the same time, maintaining and increasing the population's income... The central role in defining the level of competitiveness is played by the degree of the use of human and capital resources of the country."

A country's competitiveness as a whole is examined as an indicator that holds three components: price, technological and structural components.³ However, the main component – strategic – is missing in this complex. But if this factor is decisive even for a company today, then how important is it for a country?

Examining the problem of a country's strategy, we inevitably ask a question – what goals does the competitive struggle of states pursue? First, it is very important for any country to sell its products both on the domestic and international market (the fight is for the money of the country's own consumers and foreign consumers), and second, it is important to have investments coming in, which will help enterprises modernize their potential.

However, the same tasks are also solved by market subjects at the level of goods and companies. What is the specific feature of this level?

Apparently, the task of the leadership of any state is to create favorable conditions for the activities of national companies, because it is believed that the country's competitiveness is some sum of competitive advantages of its enterprises, especially those accessing the foreign market. At the same time, the national environment in which competitive advantages emerge, reflecting the specific feature of the country and conditions for its development and forming its international specialization in the most optimal

³ There is also another point of view on the assessment of a country's competitiveness, expressed, for example, by the same Michael Porter, which reflects the new structure of the world economic system which is only taking shape. He thinks that in conditions of ongoing globalization, when we have to talk not about national, but about trans-national companies (TNC) that have a "national basis", the country that manages to attract more TNC, providing more favorable conditions for their functioning, will be more competitive.

directions, is created by upbringing, education, traditions and ethical norms of life, and fundamental science that ensures prerequisites for effective innovations and so on.

But they are not the only ones. These are also systems of life support – steady and uninterrupted power, heat and water supplies, transport communications and everything that is needed for the rhythmic work of an enterprise. If a competitive fight between companies might cause interruptions in the world of life support systems, this might disrupt the work of enterprises and reduce their competitiveness. For this reason, the mechanisms of maintaining the balance between free competition and regulation should be drawn up at the state level in order to ensure the technological requirements of the country's economic system, and ensuring this balance is part of the system of maintaining the country's competitive positions.⁴

Strategic programs in the sphere of developing industry also apply here, and the task of the authorities is to choose the right strategic line and implement it. It is exactly the strategy that solves the country's main question, which is not only to find out how to confront rivals, but first of all, why. The effectiveness of the methods that are being used depends on what a country is trying to achieve in the global competitive struggle, however, this remains “out of sight” in many discussions on the subject of the country's competitiveness.

The main mistake of Russia

As is known, issues of the socio-cultural nature and maintaining the life support system that forms not only the material base of society's life, but also its spiritual and cultural-historical core, are solved first of all at the state level. It is exactly this core that shows the unique nature of every people, nation and country, especially the ones that have their own national reproductive base.

Today only material (economic) potential is usually identified with this base, however, in fact it is much wider and deeper. Its depth is determined by the unique socio-cultural code that forms the type of the economic behavior of the main part of a country's population, and literate use of it makes it possible to ensure the best effect of economic activity for a

⁴ In developed countries, this balance is partly regulated within the framework of the oligopolistic structure of markets, i.e. markets where many companies are competing.

country. For this reason, the strategy of forming a country's competitiveness should first of all solve the main task – to ensure the preservation of its socio-cultural unique nature and make the best use of it in order to ensure the country's competitive positions in the world economy.

Unfortunately, Russia relies only on resource factors of competitiveness for the time being, mainly factors such as territory, mineral resources and forests. Even in operational factors we are seriously behind not only our main rivals, but also many other countries that were not seen as serious rivals at all several decades ago (India, China and Southeast Asian countries).

Alas, our country is a unique example in another, opposite direction – for about 15 years, we have not been able to draw up a strategy of forming competitive advantages and have observed a phenomenon that is called “a strategic vacuum”. Instead of drawing up this strategy, the task of rapidly transferring the country to a market economy was put forward (as a strategic task). However, it is important to understand, finally, that the country's transition to a market economy is only a change in the instrument to achieve operational effectiveness, but not a strategy of development. The goal of increasing operational effectiveness in the course of reforms was not achieved either, quite the opposite – during the period of reforms, the country lost many competitive advantages which seem irreplaceable to many today.

Globalization and Russia

Meanwhile, the task of forming and implementing the national strategy of competitiveness is made seriously complicated for Russia by the increasing process of globalization in the world economy.

In terms of competitiveness, globalization can be seen as a process of creating competitive advantages based on new forms of “transnationalization” of economic activity by suppressing the national socio-cultural stereotypes of rivals' behavior. Up-to-date information and financial technologies, as well as new forms of international productive, political-legal and organizational-economic activity are used to this end. The process of

multi-centric globalization which is being actively implemented today with the USA in the lead is quite an impressive example of the competitive strategy.

The settlement of the long-term historical task by the country is the main basis of its competitiveness. The unique nature of each country gives it its own vector of development which takes account of the peculiarities of its national project in world history. From this point of view, it is not like any other country and in terms of the strategy of competitiveness, it has chances of success in the international competitive struggle. At the same time, loyalty to its own national project rules out the very idea of any possibility of adapting to any other project of world order.

Not every country can undertake such a strategic line, but Russia, if it wants to keep its unique nature, cannot afford to take another path – this is proved by its history. If our country gives the strategic initiative to its rivals, it will never be able to take worthy competitive positions and will be forced to spend decades to gain on Portugal in per capita GDP, and the main part of it will remain in the pockets of oligarchy structures and their circle.

The main task for today

So the “pyramid of competitiveness” the tip of which can be seen on the surface in the form of visible competitive characteristics of goods goes deep into the historical depth of national being, which makes us take a new look at the idea of competitiveness and make relevant practical conclusions.

Approaching the problem of increasing Russia’s competitiveness from historical positions (any other constructive approach is hardly possible here), we discover that our country is in fact facing the need to develop a global strategic alternative, which would be able to completely reflect its unique nature as a subject of the international competitive struggle. The conceptual basis of such an alternative could be the drawing up of a global “poly-centric” project in which our country could take a worthy place despite its current difficult situation.

This new and extremely difficult task set by the Russian president requires an economic strategy that meets deep national interests of the country and corresponds to its

economic model of organizing economic activities. The implementation of such a strategy should return our country to the path of steady economic growth and ensure its worthy place in the world economy.

At the same time, we have to point out that today it is absolutely not enough to predict economic growth that is close to linear in the national economy and individual spheres. It is necessary to analyze future development in the whole complex of mutual relations and mutual dependence from active and potential rivals and on this basis, to build your competitive strategy. This is a common task that should be solved jointly by the state, private companies and their unions, as well as public and political organizations interested in the country's successful development.



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