

Role of “External Support” and Significance of Experience of “Catch-Up Modernization” Implementation

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Abstract: Among factors which determined the choice of economic strategy just before the dissolution of the USSR and in the early 1990's, the study mentions subjective, sociocultural and “external” factors as the most important ones. Researcher finds the necessity for analysis of experience of “catch-up” modernization’s various models implementation, impossibility of further using previous, monetarist schemes.

Key words: USSR, implementation, impossibility, monetarist schemes, strategy

INTRODUCTION

In the closing stages of industrial modernization, under conditions of cold war and fight for achieving parity with the USA as a result of the long-term and goal-directed activity of party and state agencies usage of administrative commanding methods of management, state planning and financial backing of the scientific and technical complex, special support of technical education; development of sectoral science which carried fundamental science’s results to producing units, the USSR provided implementation of such large-scale projects as nuclear and aerospace ones, establishing of oil-gas play. But the state’s leaders’ failure to recognize the determinative vector of world community’s evolution, to identify priorities which were adequate to both global tendencies and existing resources, conditioned non-use of the most propitious moment for the start of a modernization’s new stage. Soviet economy lost dynamism and market ability, among priorities they did not list the high-tech industry, national innovative system was not created. The problem lay also in the whole technocratic approach to the society development. Management crisis, failure to perform a new stage of modernization “perestroika” were one of reasons of the USSR dissolution. Late industrial stage in the USSR was mainly completed, under good management economy could avoid large-scale crisis and the country did not have to break up. At the same time the country had high industrial, raw and scientific potential, one of the best educational systems in the world which allowed modern Russia to overcome a quite complicated transition period and to restore.

General specific features of the “perestroika” were identified by researchers (Brown, 1996; Bowker and Ross, 2000; Daniels, 1993) but until now reasons of its failure have not been comprehended completely. The main reason of the USSR’s dissolution according to fair expert opinion is influence of interrelated crises: systemic, structural economical and energetical ones which broke out in the world by the close of the 20th century. However, we would like to mention among determinants also failure to grasp exhaustion of the previous industrial model of development, incorrect priorities, excessive investment of the reforming variant chosen in 1985, waiving creation of a national innovative system, indisposition of considering results of scientific analysis and world development tendencies which had been sharply defined by that time.

It appears that the following statement is rightful: the Soviet leaders had the chance to choose another, more correct strategy and did not use it (Hanson, 2003). Under the conditions of the growing economic crisis, the central management, reckoning upon the help promised by advanced countries, lost time and controls. This conclusion also confirms analysis of some fateful decisions. On the 2nd of June 1991 in M.S. Gorbachev’s conference on the economy matters, Minister of Finance of the USSR Pavlov described economic situation as a “desperate” one: foreign trade volume for half year decreased by 30%, 33 blast furnaces stopped, 7 coke furnace batteries were disabled. The most acute problems were food, energy and finances. The country’s leader saw the only way out to move over to market relations because otherwise there was no possibility to reckon upon entering world economy and support of “Western companions”.

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Meanwhile, the West was not quick in helping. On the 11th of July 1991, the USSR's President M.S. Gorbachev in his personal message to the heads of the states participants in the meeting of the "Group of 7" in London, informed on significant achievements and the fact that his obligations had been fulfilled: "serious turn from confrontation to mutual understanding", the end of the "cold" war, "practical start of the disarmament process". "However, the letter's researcher underlined in the sphere of economic contacts there are no significant changes. Difficulties that will be suffered by people may appear to be excessive, fraught with large social clashes and danger for democratic reforms. We believe that now it's time to make coordinated efforts on mending new type of economic interaction in the process of which the Soviet economy with its huge production, scientific and technical and also workforce potential with luxuriant natural resources and immense domestic market could be integrated into the world economy". In a few days, Gorbachev in his talk with G. Bush in London (perhaps, having lost patience and hope) asked if the USA administration changed its policy concerning the Soviet Union having forgotten about diplomacy, exclaimed: "My friend George does he look at us without seeing what we already do?! Sowhat! Like well done, Gorbachev! Goon, we wish you luck! What a good support stew in your own juice, it is not the (Americans) business. It's strange 100 bln were thrown in to the conflict of regional significance (the Gulf War) into implementation of "this project". And such "project" as the transformation of the Soviet Union which ceased to be opposing force and menace and its involvement in the world economy in the world community this "project" is still not accepted by you for execution". It was not until the Autumn of 1991, after August events when American ambassador R. Strauss in his talk with M.S. Gorbachev explained his managers' position by exhaustion of "limits" for helping the USSR because of "American people disaffection" and opposition party's pressure.

Archive documents test if y that the country's leaders fought a losing battle for finding resources, reckoning upon implementation of projects which were adequate to Marshall Plan. In this respect, the director of the Institute for US and Canadian Studies A. Kokoshin in his letter addressed to the aide of the USSR president, A.S. Chernyaev, wrote about absence of grounds for such expectations and hopes for new credits. The IMF has no high finance, its credits just confirm borrower's belonging to world community and readiness to act by rigid rules.

G. Soros's Open Society Foundation played a certain role in "reform of strategy" of the authorities when it suggested the variant of the country's transition to the market by Saks-Linton scenario. This variant was used in

Poland, Latin America and it is oriented towards not a stage-by-stage structural conversion of economy, state's control of inflation but towards spontaneous formation of market balance with such evident consequences as production's deep recession and mass unemployment (Natanson, 2008).

In 1991, the country became a member of the European Bank for Reconstruction and Development (EBRD) in 1992 entered the International Monetary Fund (IMF) and joined the World Bank Group the International Bank for Reconstruction and Development (IBRD). The IMF experts, together with workers of IBRD, EBRD and GATT, set conditions of granting aid in the line of the Foundation. According to them, Russia proceeded with deregulation of economy at high speed.

According to data of the Audit Chamber of the Russian Federation, over a period of from 1992 till 2000 Russia's overall volume of borrowings from international financial organizations amounted to US \$26.1 bln, main part of which (70%) was financial credits from the IMF (\$18.2 bln). Volume of borrowings from the IBRD during these years amounted to \$7.6 bln, the World Bank's financial credits amounted to \$4.6 bln. Volume of investment borrowings from the IBRD which were designed to financing real economy, amounted to \$3.0 bln and from the EBRD \$0.3 bln or 12.6% of the raised funds total amount. Auditors' conclusion dispirits: "The maximum volume of funds applied fell within the scope of consultation services payment and not for components of projects involving supply of equipment and technologies".

In the IBRD's loan portfolio allocation, investment borrowings amounted to 41%. Among these borrowings, the maximum volume of funds was applied to sector of infrastructure and environment 39% (\$1.82 bln) to power-generating sector 25% (\$1.16 bln) to social sector 16% (\$0.74 bln) to financial sector and "reform of enterprises" 14% (\$0.16 bln). To the agricultural sector and institutional development 5% (\$0.24 bln) and 3% (\$0.16 bln) of funds were applied correspondingly. But main part of sub-projects was directed towards such a insascampaigns on informing the public about privatization programmes in Russia (\$6 mln), consulting and researches of privatization problems (\$24 mln) and so on. In particular, on the 12th of May 1995, to promote the privatization programme, "Russian privatization centre" concluded a contract totaling US \$2.9 mln with "Zhizn I koshelyok" ("Life and purse"), aimed at preparing a free supplement to the newspaper "Argumenty I fakty" ("Arguments and facts"). By the time of Audit Chamber's check (November 1997) this publishing activity had been already stopped.

As early as in 1991, the Programme of technical assistance of European Union (EU) TACIS was started in the country. Over a period of from 1991 till 1999 TACIS budget devoted EUR 2048 mln on a free-of-charge basis and part of funds for financing via national programmes amounted to EUR 1.5 bln. However, even in this case, according to data of the Audit Chamber, main volume of funds was spent in fact on payment of services of experts and consultants from countries members of the European Union and only a small part from the TACIS budget was applied to buying equipment or payment of Russian experts' services.

Thus with in the frame work of projects institutional reformations were supported, services and buying of equipment for federal executive bodies were financed, funds were spent without coordination with actions on economic restructuring for which they were designated. Narrowing of the deficit of the federal budget was not achieved, reduction of the GDP overall volume continued. Liberalization of external trade and prices without conjoined monetary reform eliminated the deficiency of wares but at the same time devaluated earned savings, provided the Russian Federation with the place of a raw outsider. Criminal, forced by the authorities, privatization, inflation, decline in production and dominance of the import, breakdown of scientific and technical complex of the country and MIC of the unified money-and-credit system, fall of investment activity, non-payments crisis, forced foreign borrowings, sharp social stratification, threat to national security all these are consequences of the course which did not take into account specific conditions of development and national interests of Russia.

The 1998 was a serious test for the Russian economy. As of the 1st of July 1998, the Russian Federation's foreign debt came up to US \$130.5 bln. Vastsums were directed to payments of the foreign debt servicing: only within the 1st 6 months of 1998 they amounted to US \$4.68 bln or 72% of volume of payments in 1997. To overcome the disaster in particular such measures were taken as sale of government reserves of precious stones and precious metals (7551.2 mln. rub).

CONCLUSION

The August collapse of the financial system was a consequence of the state debt accumulation in the form of a financial pyramid of state short-term obligations, capital exports, insecurity and loss of trust in the authorities. To service the national debt, the government of the Russian Federation reduced expenditures of the national budget, violating state's obligations on financing the social sphere, the national security system, diverting financial resources from the real sector of economy. But even later,

paying the foreign debt, maintaining financial stability by any means, the government deprived the production sector of investments. Meanwhile, some industries were lost, the level of physical deterioration and obsolescence of the fixed capital was unprecedented. Antimonopoly policy, actions in the sphere of price formation and taxation were inadequate. This was the result of these commendations that were pernicious for the country, absence of a consistent scientifically grounded system policy. The growth in the early 2000's was conditioned by the increase in world prices for raw, it was reconstructive against the catastrophic recession in many indices late Soviet results could not be reached. Unfortunately, the "raw" model of the national economy which arose as a result of the management crisis, determines the country's development algorithms now a days to a significant degree. The global financial and economic crisis in 2008, 2008 showed frailty of positive trends which arose in conditions of a propitious external-economic conjuncture. With preservation of freedom of trans-border capital circulation, capital inflow was replaced by capital outflow which was massive to the same degree. The Russian Federation's state economic policy in December 2013 was described by the RAS scientists as "a pinpoint antirecessionary one with a strongly marked emphasis on maintaining social stability".

RESUME

In a very complicated geo political and economic situation the Russian Federation more than ever needs a careful consideration of attainments and errors of the "catch-up modernization" implementation, to avoid "traps" which are typical for such model which showed up, in particular, in Latin America, where neoliberal reforms of the late 20 century were implemented according to the scenario which identified its place as an industrial emperiphery.

Direct analogies are impossible: as distinct from Russia and other CIS countries in that period there was progress too and only a fragmentary de-industrialization occurred. Though economic growth was mainly accompanied by technologies loan and from 1998 the pace became distinctly slower, corruption and society's polarization intensified, the society became "radicalized".

Necessity of a "new industrialization" implementation by the Russian Federation which was urged by many national experts for so long, does not mean a direct copying of Brazil's or some other's experience, let alone reconstruction of the Soviet industry with its structural disparities and defects. But it makes us think about impossibility of using previous schemes, significance of social programs, modernizational strategies correlation in

accordance with the Russian society's traditions. Anyway, the history proved that modernizational transformations within the context of the "Catch-Up" Model condition the state's active role, great expenses, economic costs but without industrial basis there is no sense to declare creation of a national innovative system. Specificity and complexity of starting conditions in Russian Federation require phasing in implementation of modernization, "new industrialization" in parallel with transition to "knowledge economy", considering of sociocultural peculiarities, specific character of regional economic and political system. At the same time, it is impossible to insist on a "special" Russian way because modernization is implemented in the conditions of the modern world's globalization, scientific and technical revolution also renounce national barriers.

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