

THE DEGREE OF FEDERAL INFLUENCE ON THE DEVELOPMENT VECTOR OF THE CHECHEN REPUBLIC

Sulaiman RESHIEV

*Ph.D. (Econ.), head of the Budget Policy Department,
Presidential Administration and
Government of the Chechen Republic
(Grozny, Russia)*

The Chechen Republic is going through a difficult historical period in its development. A retrospective analysis of the nature of this process shows a clear correlation between the policy of the Federal Center and the vector of Chechnia's sociopolitical development.

The current state of affairs in the Chechen Republic results in large part from its tragic past. In studying the republic's development, it is necessary, in my opinion, to examine three periods in their interconnection, because such an approach helps to gain a better understanding of the philosophy of its evolution. The Soviet period in the development of Chechnia was marked by great excesses in the national policy of the Union Center toward the republic. The starting point here was the absolutely monstrous deportation of entire peoples from their historical homeland in 1944. When the Chechens were allowed to return in 1957, their integration into peaceful constructive life in the Chechen-Ingush Autonomous Soviet Socialist Republic was a slow and painful process. This had a particularly adverse effect on the work of government bodies and economic management agencies. Until 1989 (that is, almost until the end of the Soviet period), not a single representative of the titular nationality had ever been elected as head of the regional Communist Party committee. Ethnic Chechens met with artificial barriers limiting their opportunities to work in a number of key ministries, departments and associations; they were never appointed to senior posts. A similar situation existed in higher and secondary education institutions in the republic.

In the Soviet period, the economy of the Chechen-Ingush Republic was mostly based on the petrochemical complex. In the 1980s, industrial production had the leading place, accounting for 57% of the republic's total output; agriculture contributed 17.8%, construction, 15.5%, and infrastructure sectors, 9.3%. The main role in industry was played by the fuel and energy complex, whose share in 1988 was 45.7% of commercial output and 67% of fixed assets.

The Soviet period in the republic was marked by the development of large and highly productive deposits, and also by their intensive exploitation designed to maximize current revenue. This resulted in rapid depletion of reserves and mounting environmental problems, which led to a shortening of active development periods and to a premature decline and "winding down" of mineral production in many areas. This process gathered momentum in the republic in the 1960s-1980s. The average period of active development of oil-producing regions in Russia is around six years.

Foreign experience shows that active field development in the oil and gas sector in many countries and regions is lengthened by means of moderate rates of extraction (primarily at major fields) and capacity reservation. For onshore oil fields, the rate of development is usually close to 2% of original recoverable reserves. That is why the active development period for many foreign oil-producing regions is dozens of years. A moderate extraction rate makes it possible not only to lengthen this period, but also to minimize costs and, consequently, to increase the profitability of oil and gas production.

An analysis of the development of the republic's social sphere in the 1980s shows that in terms of all key parameters it steadily ranked very low in the Northern Caucasus economic region and in the Russian Federation as a whole. This is explained by the total subordination of the autonomous republic's key industries to central departments (75% of all enterprises were under Union jurisdiction, and 22%, under the jurisdiction of the Russian Federation), by the fact that the republic's interests were ignored in the process of distribution of its industrial income between it and the Union Center, and by the absence of a considered policy regarding the location of production, diversification of the economy, development of the social sphere, protection of the population's interests, etc. As a result, the value of non-productive fixed assets per capita (in actual prices) in the Chechen-Ingush Autonomous Republic in 1987 was 2,015 rubles, i.e., the republic ranked next to last in the Northern Caucasus economic region and 72nd in the Russian Federation. In terms of another parameter—capital investment by state enterprises and organizations in the non-productive sphere per 1,000 population—in 1987 the republic ranked last in the Northern Caucasus and 73rd in the Russian Federation (with 572 thousand rubles).

The development of the republic's social infrastructure in that period had a specific character: it was mostly created by industrial production personnel and serviced them, and also employees of state institutions located in Grozny. The proportion of Chechens in these institutions was insignificant in view of the above-mentioned artificial restrictions imposed on the titular nationality in matters of government employment. In rural areas, mostly inhabited in that period by Chechens, social services were at an extremely low level; many rural communities in the republic did not even have a direct bus service to Grozny. At that time, there was a paradoxical situation in the Northern Caucasus economic region: the Chechen-Ingush Autonomous Republic, which had the most powerful economy in the form of its industry, in terms of many social indicators ranked last not only among the territories of this region, but also among all subjects (constituent entities) of the RSFSR, whereas another administrative-territorial unit of the same economic region—North Ossetia—with an economy constituting a fraction of the Chechen economy ranked third among all RSFSR subjects in terms of the same social indicators.

In my opinion, the above-listed components of the previous period had a decisive influence on the vector of Chechnia's development in post-Soviet times.

During the disintegration of the U.S.S.R. in 1990 and 1991, many Union and some autonomous republics (including the Chechen-Ingush Republic) declared their state sovereignty. In the period from 1991 to 1994, the economy of the Chechen Republic developed as an enclave because its new leadership and the Federal Center failed to find a Pareto optimal solution in their mutual relations. As a result, the Chechen economy was gradually sliding into a slump. One can say that with the start of military operations in the republic (in December 1994), its industrial economy ceased to exist. After the "first Chechen war," the republic was left virtually without any industry or other key sectors of the economy. In the period between the two wars (1996-1999), Chechnia had a primitive economy. At that time, there were no serious investments in the republic for many reasons, but primarily due to the absence of real steps to implement the basic agreements achieved between the Chechen Republic and the Russian Federation in 1997. Two military campaigns in the republic's territory in the course of six years caused irreparable damage both to its economy and to its citizens.

In early 2000, the republic lapsed into gloomy pessimism: many of its inhabitants lost faith in the very possibility of a normal life in Chechnia similar to that in other, stable regions of the Russian Federation. Public opinion was coming to the conclusion that the republic's territory and its population were being used by various international forces to achieve their geopolitical goals in the Caucasus. Tired of uncertainty and arbitrary rule, people were hurriedly leaving Chechnia in search of a peaceful place to live in. The Interim Administration of the Chechen Republic, headed by N.P. Koshman, and some Federal agencies thought it impossible to restore Chechnia's capital, the city of Grozny. The

State Institute of Urban Design (GIPROGOR) developed its version of the capital's General Plan, and its director M.Iu. Grudinin presented this plan at various events. According to that document, the old city was not to be restored, but a new one was to be built to the east of it, with two or three-storey houses. That version of the capital's General Plan provided for a maximum population of 250 thousand. The Plan did not stand up to criticism even in the eyes of the average citizen: the locals aptly called it a "barrack system."

When Akhmad Kadyrov was appointed head of the Administration of the Chechen Republic, he revised the opinion of the former leadership on the capital's future. Having studied the General Plan of the republic's chief city as proposed by GIPROGOR, he came to the conclusion that it was unacceptable from the standpoint of the republic's development prospects and expressed his desire to restore the capital in the old place with the construction of 18-storey buildings meeting modern architectural standards.

Since 2005, after the appointment of Ramzan Kadyrov as acting Chairman of the Government of the Chechen Republic, he started implementing Akhmad Kadyrov's plans. Since then, a great deal has been done in the republic to restore housing and social facilities, and also elements of the social infrastructure destroyed during military operations. Moreover, much is being done to create some components of the social sphere in population centers where they were absent throughout the entire period of Soviet power.

It has been declared, this time at the Federal level, that all the consequences of the war should be fully eliminated by 2010, so that the republic could eventually develop as an ordinary subject of the Russian Federation.¹

But this task cannot be accomplished without a fundamental review of the policy pursued by the Federal Center in the Chechen Republic (if it is not interpreted too narrowly). In a limited sense, the elimination of all the consequences of military operations can be understood as a restoration of the housing, social facilities and social infrastructure elements destroyed in the course of the two wars. This task can be accomplished in the specified period, given consistent Federal financing of rehabilitation works in the said areas. The republic's own material participation in this process will be very limited in view of its small budget. With this approach to rehabilitation, the basis—Chechnia's economy—is left out of the process. Today the republic's economy is virtually nonexistent, while its backbone—the petrochemical complex—has in effect been destroyed. Unfortunately, nothing has been said to date about the creation of a Chechen economy that would meet modern requirements. So, at this stage it is too early to talk about a proper regeneration of the republic and its integration into the single socioeconomic space of the Southern Federal District (SFD) and the Russian Federation as a whole.

The Federal Center, in our opinion, has not yet drawn any objective conclusions from its past socioeconomic policy in the Chechen Republic. The method of keeping regions within the loyalty zone by means of excessive financial dependence on the Federal Center is extremely ineffective and strategically erroneous (in the conditions of information openness). Today it is highly important to make a correct assessment of the Federal Center's true interests in the regions. In pursuing its regional policy, the Center should know and take into account the experience of countries with developed federalism.

At the present stage in the development of the Russian state, a task of great current importance is the establishment in Chechnia and other heavily subsidized RF regions of a modern economy based on the principles of developed federalism. With its current financial capacity, the Federal Center is quite capable of accomplishing this task within a short period.

¹ See: Russian economic publication *Valovoi vnutrennii produkt* (Moscow), No. 19, 2006, p. 12.

The experience of federal countries (including domestic experience) suggests that it is impossible to achieve sociopolitical stability in a region or to integrate it into the country's single socioeconomic space unless an economy matching the basic country-average characteristics is created in this region. Empirical observations show a stable correlation between these two factors.

In recent years, the Chechen Republic has been over-subsidized: in 2007, grants from the Federal budget amounted to 24,385,965.8 thousand rubles, or over 90% of the republic's consolidated budget revenue.²

Today the Federal Center has set itself the goal of increasing its own revenue in the budgets of subsidized regions by broadening their tax base. However, in our opinion, this goal cannot be achieved without the Center's active participation in the development of the economy of these regions and a review of current arrangements for sharing tax revenue between various budget levels in favor of the regions (with due regard for the successful experience of other countries). Until these problems are resolved, Russia's subsidized regions will remain in the zone of sociopolitical instability and, consequently, will be unattractive for direct investment. Such a development vector will perpetuate the backwardness of the country's heavily subsidized regions, as is evident from their basic characteristics over the past ten years.

The Federal Center can achieve the above goal in Chechnia by resolving—in the true interests of the country and the republic—the following problems:

1. Accelerated creation in Chechnia of full-fledged modern market institutions, primarily a territorial institution of the Bank of Russia, a customs service and a stock market (with due regard for positive domestic and world practice).
2. Urgent steps to redefine the status of the republic's industry in its favor. Without such a decision it is impossible to properly restore Chechnia's industry, which means there is little chance of integrating it into the single socioeconomic space of the SFD and Russia as a whole. Without such a decision it is also impossible to change its status of an over-subsidized region, which means that the republic can hardly be turned into an attractive investment destination. When the oil sector is transferred to the jurisdiction of the Chechen government, it will be necessary to reorganize the oil industry and create a Chechen Petroleum Corporation (CPC) in order to coordinate the activities of all enterprises in this industry. This should lead to a centralization of oil sales and an increase in the republic's market competitiveness. The CPC's priority tasks should include an expansion and modernization of the petrochemical industry as part of the reconstruction effort and formulation of a strategy for the development of the oil industry. The CPC should create its own network for the distribution, marketing and retail sale of refined oil products both in Russian regions and in CIS countries. In formulating a comprehensive strategy for the development and modernization of the republic's petrochemical complex, it is necessary to study and take into account the relevant experience of other countries and regions, primarily Kuwait³ and the Republic of Tatarstan.
3. Creation of new industries to diversify economic development and provide the population with alternative employment opportunities. This should be done in order to reduce the republic's dependence on oil revenues. A special place could be assigned to the extraction of commercial complex ores and rare metals and organization of mining enterprises on this basis, and also to the development of the hydropower industry with the most effective use of the republic's hydropower potential in order to reduce electricity costs for producers and consumers. At this stage, the government of the Chechen Republic could make a proposal to the

² See: *Zakon Chechenskoj Respubliki o respublikanskom biudzhete na 2007 god*, Grozny, 2007.

³ See: *The Middle East and North Africa*, London, 1993, pp. 380-756.

Federal government validating the possibility and necessity of moving certain high-technology lines of industrial production from northern Russia to Chechnia in order to enhance their competitiveness in the foreign market. The possibility of such relocation can be motivated by the fact that the south of Russia is just the geographic and natural climatic zone that makes it possible to compete with Western states in this area. Other arguments that could be used to justify this proposal include the existence in the republic of a significant contingent of relatively cheap but highly skilled labor and a fairly large domestic market for the sale of the resulting products.

4. Advance development of a proper economic infrastructure as required by modern society. Priority should be given to the following elements of such an infrastructure:
 - all kinds of communications—both within the republic and with the outside world—meeting world standards (telecommunications, railways, roads, airlines, power grids, oil and gas pipelines, water supply systems, etc.);
 - material and technical base for health care, education and science.

In the conditions of market competition between the country's regions, the Federal Center should resolve, within a short period, such problems as the MegaFon mobile operator's monopoly position in Chechnia, the granting of international status to the republic's airport, and the opening of a motor road between the Chechen Republic and the Republic of Georgia. In view of these unresolved problems and the lack of a full-scale customs service in the republic's territory, its economy continues to suffer huge losses. This is evident from the fact that transportation in the Chechen Republic makes virtually no contribution to the gross regional product (GRP), whereas in the Krasnodar Territory its share in GRP is 18%.⁴

5. Development and strengthening of integration ties with other Russian regions. This task can be accomplished under the following conditions:
 - the Federal Center, with the direct participation of the presidential plenipotentiary representative in the Southern Federal District, resolutely eliminates all the artificial barriers between the territories of the SFD in order to create a single SFD market, and also in the interests of all constituent entities of the SFD and the state as a whole;
 - the Federal Center organizes constant monitoring of the state of affairs in the area of transit between the SFD territories at the district level;
 - based on the results of such monitoring, the Federal Center takes expeditious steps to prevent violations in any SFD territory.

This will markedly intensify economic activity in the SFD and promote the integration of its constituent entities into a single regional market. More effective use will be made of existing productive resources and of the entire potential of this macro region.

6. Intensive development of high-technology industries and the service sector in the broad sense of the term, with due regard for the republic's potential, the experience of developed countries and world economic trends. Special emphasis should be placed on progress in the field of recreation and tourism. In these areas, it is necessary to create, as a matter of priority, an institutional and infrastructure base (with the active participation of the Federal Center).

⁴ See: V.Ie. Yemelianov, "Iuzhny federalny okrug: sovremennoie sostoianie i problemy razvitiia," *Vneshneekonomicheskije svyazi*, No. 9, 2004.

If desired, the RF government will be able to find the financial resources required to carry out the above-listed measures. With the development of the service sector in accordance with the needs of the market economy, employment in this sector will considerably increase.⁵ This will involve qualitative changes in the structure of the service sector and an extension of the range of services. Well-thought-out and consistent improvements in this area will help to resolve, with the participation of the Federal Center, two major problems facing the Chechen Republic: to reduce unemployment and improve the people's quality of life.

7. Development of the republic's international cooperation and an increase in the share of foreign economic activity in GRP. In order to accomplish this task, it is necessary to create modern institutional and infrastructure conditions for promoting the republic's foreign economic initiative with the Federal Center's active participation. The latter should help Chechnia—methodologically and organizationally—to establish direct foreign economic relations with the outside world (with due regard for the experience of civilized countries). As a result, the republic's share in the foreign economic activity of the Russian Federation will increase, and this area will have a key place in the Chechen economy. Today the Chechen share in the total volume of Russian foreign economic practice is close to zero. The development of the republic's foreign economic activity to a proper level will give a powerful impetus to innovative processes and diffusion of innovations throughout its territory.

However, the republic cannot accomplish these tasks in the foreseeable future through its own efforts (either politically or economically) in view of its extremely limited resources. From this it follows that success or failure in the achievement of the goal set by the Federal Center—to increase its own revenue in the budgets of subsidized regions by expanding their tax base—in the case of Chechnia depends entirely on Russia itself.

So, the degree of the Federal Center's influence on the development vector of the Chechen Republic has not diminished (and may have even increased) compared to the Soviet period.

⁵ See: *Regional Economic Performance within the European Union*, Ed. by K. Button and E. Pentecost, Edward Elgar, Cheltenham, 1999.