

THE FEDERAL CENTER'S POLITICAL LEEWAY IN CHECHNIA AND ITS ECHO IN RUSSIA'S SOUTH

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It is highly important today to assess what policy the leaders of Russia are pursuing in the Chechen Republic (CR), to identify all of its possible alternatives and their impact on Russia's South. Let's have a look at what was done between 2000 and 2004. In 2000 the Center restored its power in the republic, set up a system of military commandants across its territory, created a national administration and tied Chechnia to the federal budget system. The republic, however, remained a scene of the counterterrorist operation.

In February 2001 the RF government adopted a Federal Target Program of Rehabilitation of the Economic and Social Sphere of the Chechen Republic for the Year 2001 (Resolution No. 96). According to expert assessments, it was fulfilled by 15 percent for lack of coordination among the federal partners in the program and their inadequate approach to its realization. Strange as it may seem the reasons lied outside the republic. The failure is explained by the low culture and practice of drafting, adopting, and realizing federal target programs of regional development adopted for implementation since the 1990s. (All of them remained practically unfulfilled.) This says that many of the top government bureaucrats have not completely realized that it was them who are responsible for the success or failure of such programs. In the European Union, for example, similar territorial programs are one of the most important elements of the states' regional policies, which explains why the aims and schedules are faithfully observed, while the results improve the living standards and create more jobs for the economically active population in such regions.

As distinct from the European countries the RF has not yet made its target programs an efficient instrument of its regional policies—they are still mere declarations. There are no consistent information about the political and socioeconomic development of the Chechen Republic in recent years. Even though the statistical service of the CR has been functioning since 2002 there are too many gaps in the graphs related to Chechnia, which means that information either does not reach the Center or is merely ignored. In fact, the republic's statistical service leaves much to be desired: the summary statistical material On the Socioeconomic Situation and the Progress of Restoration Works in the Chechen Republic for the Year 2003 (the Construction-Restoration Works section) was based on the figures supplied by the RF State Committee for Statistics that received them from the corresponding federal ministries and departments. The figures look doubtful to say the least. I am not talking about the money (4,234.9 million rubles) spent. My doubts about the restored facilities are based on independent assessments by those who saw the progress of restoration works with their own eyes. This says that the status of the CR services responsible for gathering and summing up statistical data and presenting them on time to the RF State Committee for Statistics should be elevated.

It is the Federal Center that is responsible for Chechnia's future and its real integration into the country's political and socioeconomic system; the Center is carrying out this policy in the republic and the Southern Federal Okrug (SFO) as a whole. Today, real peace and stability in Chech-

nia, an indispensable condition for its successful development, depend on the Center, which makes forecasts of its policies in the republic extremely important. Today, this trend is coming to the fore at the expense of forecasts of Chechnia's development based on the republic's endogenous factors and its potential. Indeed, political processes in Chechnia and its real integration into the country's political system is a painful and contradictory process. There is no adequate law enforcement system, the human rights are not observed, there is no stability and even less personal security in the republic, as well as there is no respect for the constitutional rights of citizens in the republic.

According to the Ministry for Economic Development and Trade of the Russian Federation, the country is conventionally divided into five groups by integral index: the regions with the development level above average (14 subjects of the Russian Federation), with average level (24 subjects), below average (26 subjects), low level (23 subjects), and extremely low development level (12 subjects). Chechnia holds the last place in the last group.¹

Chechnia has not yet delimitedated its territory with Ingushetia (together they cover 19,300 sq. km); there is no decision about the administrative border between them. The decision that is overrippe also belongs to the Center.

There is no detailed information about the latest demographic situation in the republic, therefore I shall limit myself to some of the figures (see Table).

The table clearly shows the discrepancies between the materials supplied by the Federal Service of State Statistics and its structure in the Chechen Republic (the migration figures are taken into account: in 2002 migration increase was 474 people; in 2003—1,555; in 2004—795. The table is another evidence of the fragmentary nature of statistics and the doubtful nature of the figures for the republic.

In any case, in recent years population has been steadily growing—a positive factor in the country hit by a demographic crisis. In 2003 natural population increase per 1,000 was 18.4 (the highest

Table

		2002	2003	2004
Population size—total (thous)	*	1,104	1,105	1,121
Including:	}			
urban		373	373	378
countryside		731	732	743
Born	**	26,594	27,774	28,496
Died	}	7,253	7,194	6,347
Including infants		297	282	331
Natural growth/decrease		19,341	20,580	22,139

* According to the Federal Service of State Statistics. *Rossiiskiy statisticheskiy ezhegodnik 2004*.

** According to the data supplied by the territorial structure of the Federal Service of State Statistics for the Chechen Republic.

¹ See: *Ekonomika Rossii: itogi i perspektivy rosta*, Moscow, 2004.

figure among the SFO constituencies).² In 2002 the unemployment level was 57.8 percent; in 2003, 70.9 percent—the highest for the corresponding years among the SFO constituencies and in the country as a whole.³ The *Rossiiskiy statisticheskiy ezhegodnik 2004* offers no figures for the local people's money incomes; the same can be said about the republic's statistical materials. One can surmise, however, that by that index which is directly related to the standard of living the CR is very low on the list of the SFO constituencies. In 2003 the average monthly nominal accrued wages in the republic were 3,807.8 rubles (the fourth place among the SFO constituencies for 2003 after the Astrakhan Region, Krasnodar Territory, and Volgograd Region).⁴ In 2003, the average monthly awarded pension in the republic comprised 1,339 rubles, the lowest among the SFO constituencies.⁵ The subsistence level in the republic in the IV quarter of 2003 was 2,183 rubles a month, the highest among the SFO constituencies for the same year.⁶

There are no figures for the number of people with money incomes lower than the subsistence level either in the *Rossiiskiy statisticheskiy ezhegodnik 2004* or in the corresponding materials of the territorial structure for the CR for the years 2002-2004. We can safely surmise that in this respect too the republic is found at the bottom of the list of the SFO constituencies.

There is no statistical information about such important indices as average per capita living space, the gross regional product (GRP) and the capital assets.

In 2004 industrial production per branch of industry reached the figure of 10,750.7 million rubles. Distribution by branch in million rubles was the following: power industry—10.6; oil extraction, 10,580.1; machine building and metalworking, 12.8; forest products industry and woodworking, 0.2; construction materials producing industry, 63.9; light industry 2.6; food industry, 52.2; medical industry, 7.2; printing industry, 21.2.⁷ The share of oil extraction in the total volume of industrial production is too big: 98.6 percent. This means that the republic's economy depends on it and that the republic very much depends on the money supplied by this branch.

Between 2002 and 2004 the area under crops in agricultural organizations contracted from 155,200 hectares in 2002 to 148,200 hectares in 2003, and 131,500 hectares in 2004.⁸ In 2004, the yield capacity of the main crops in these organizations was (in centners per hectare of harvested areas): grain, 13.0; sunflower, 2.3; sugar beet (commercial), 133.7; vegetables, 20.9.⁹ In the European Union the figures are much higher, from which it follows that if foreign experience is successfully applied the republic will be able to modernize its agriculture and increase yield capacity.

There is no statistical information for all other key social and economic spheres.

This suggests the circle of problems the correct or incorrect approach to which will determine success or failure of real integration of Russia's South into the country's socioeconomic and political system.

The continued military conflict in Chechnia remains the region's main problem. The Center has not yet found a Pareto-optimal solution to it, which means that it continues to negatively affect the development processes in Chechnia and the macro-region as a whole. There is no concrete information of the SFO constituencies' indirect losses due to the missed opportunity costs caused by the situation in Chechnia, yet the socioeconomic and political situation in the territories living under the market conditions clearly suffer because of it.

² See: *Rossiiskiy statisticheskiy ezhegodnik 2004*.

³ *Ibidem*.

⁴ *Ibidem*.

⁵ *Ibidem*.

⁶ *Ibidem*.

⁷ According to information supplied by the territorial structure of the Federal Service of State Statistics for the Chechen Republic for 2004.

⁸ *Ibidem*.

⁹ *Ibidem*.

The artificial barriers among the SFO territories are another obstacle on the path to an integrated market in Russia's South. There is an obvious connection between this and the developments in the Chechen Republic. The barriers contradict the constitution and the laws of the Russian Federation; they limit the citizens' right to move freely across the country and make it harder to move goods, capitals, investments, labor resources, services, etc. This is responsible for the indirect losses of the SFO territories in the form of missed opportunity costs and limited potentials of the local markets because the SFO population size cannot sustain its autonomous development. The SFO population size and population density are lower than those of the "old" EU members by several orders of magnitude. It should be added that there are fewer artificial barriers among the EU members than among the SFO territories.

The low efficiency of the state bodies of power (at the level of the federal okrug and its territories) when it comes to dealing with acute socioeconomic and political issues is another problem. The federal okrugs were set up to bring the central authorities closer to the macro-regions and their territories and to work on integrated and target development programs together, yet the programs still remain declarations of intent. So far, nobody has been punished for their failure. The Federal Target Program of Rehabilitation of the Economic and Social Sphere of the Chechen Republic for the Year 2001 and the "Russia's South" Federal Target Program adopted by Resolution No. 581 of the RF Cabinet on 8 August, 2001 are two examples. The critically high level of corruption and the clan nature of the state machine are especially obvious in the southern autonomous republics.

Low labor productivity and beggarly per capita incomes are the fourth problem. By their GRP and the per capita GRP the SFO territories are behind the EU countries by several orders of magnitude. In many territories the per capita money incomes are lower than the subsistence level. Coupled with the high unemployment figures this says that the macro-region has still failed to create conditions for the best possible development and siting of its productive forces, freeing business initiative and mobilization of the natural and human potential.

The fifth problem is the ineffective structure of the SFO economy and that of its territories; there is no clarity about the diversification of their economies; the developed countries' experience has not been taken into account. Industry is undeveloped; its share in the RF industry is meager 6.2 percent; in the SFO autonomous republics industry is practically non-existent; their shares in the national industry is below the statistical error level. The employment structure in the economy speaks of the need to diversify it in line with the latest foreign experience and worldwide trends. For example, the share of those employed in the SFO industry is 17.7 percent of the total; in agriculture, 21.6 percent; in services, 46.4 percent. These figures differ greatly from similar indices in the developed countries where the services employ from 55 to 60 percent of all gainfully employed.

Weakly developed foreign economic ties are the sixth problem: the SFO is responsible for 4 and 5 percent, respectively, of the total export and import of the RF; its autonomous republics are even less involved in foreign economic activities. Leaders of many of the SFO territories have so far failed to create adequate institutions and infrastructure to be used for foreign trade under the market conditions. As a result, the huge foreign economic potential of the SFO and its territories remains untapped; they suffer great losses in the form of missed opportunity costs.

The above suggests two possible alternatives of the Center's policies in the Chechen Republic and the Southern Federal Okrug.

Under the first alternative the CR and SFO will develop within the inertial dynamics: they will continue sliding below the average Russian level where their socioeconomic development is concerned. This is especially true of the autonomous republics: today, most of their socioeconomic indices are among the worst in Russia. Under this alternative it would be hard to expect any considerable structural changes in the SFO economy; the same applies to its territories. In this way, the macro-region will fail to diversify and optimize its economy, its structures and the distribution of the employed by

sector (to imitate the developed countries' pattern). It will continue to be dominated by its unprofitable agriculture.

The Center's inertia will preserve the disproportions now observed among the territories and the artificial barriers among them that interfere with their interaction and integration. The state structures working in the SFO and its territories will remain ineffective from the viewpoint of the ordinary people. The macro-region will never resolve the problems of low labor productivity, the low per capita incomes and unemployment. Foreign trade will never produce any positive influences on the SFO's economy, while the SFO's economic dynamics will be much below the desired. The "Chechen page" will never be turned which will continue to negatively affect the development of the entire macro-region. If the Center treats the development problems with inertia in the absence of stable and final peace in the CR the autonomous republics will remain backward; the zone of social and political instability in the SFO will extend to become a seat of tension during crises anywhere in Russia. Information about the situation in the South of Russia will encourage the countries with geopolitical interests in the Caucasus and political movements, including extremist movements, to exploit this chance. Russia might lose its South, the weakest link of the country's administrative-territorial structure.

Under the second alternative the socioeconomic, political and ethnic processes in the macro-region will unfold according to the strategy elaborated by the Center in the person of the plenipotentiary representative of the RF president in the SFO together with the territories taking into account the successful development of federalism elsewhere.

To realize this strategy the Center should treat the problem of its relations with the CR in an objective way. Russia and the CR should find a Pareto-optimal solution to this problem: the republic can be made a demilitarized zone to bring back to Chechnia peace and mutually advantageous cooperation with other RF regions and the rest of the world.

Under this strategy all artificial barriers between the SFO territories will be removed to create a single market in the interests of the territories and the country as a whole. The developments in this sphere will be controlled by the SFO authorities so that all violations could be remedied on time. This will boost economic activities in the SFO; will unite its territories into a single regional market in order to better use their industrial resources and potentials.

The country's leaders should abandon the faulty practices of supporting all regional leaders (even when they violate the constitutional rights of the citizens and the federal laws) in exchange for their loyalty to the Center. The SFO will monitor the developments in the human rights sphere, keep corruption and the clan nature of the local institutions of power under control, as well as prevent monopolization of the market. The results of such monitoring will be made public; the territories will be ranked according to the corresponding indices. The Center will consistently support the territories' democratically elected bodies of power and ensure their democratic continuity. Integrated target development programs for the SFO will be drafted and realized with the active participation of the territories; the same applies to the territorial target programs that will mention specific dates of each stage, the funding sources and the names of those responsible for their implementation. The experience accumulated by the developed federal countries will help create effective mechanisms at the SFO level (to which all territories are expected to contribute) to level out the standards of living. This will justify the existence of the federal okrugs in Russia. These measures will require additions and amendments to the corresponding legal acts of the Russian Federation.

World and EU experience suggests that the economic structure of the SFO and its territories be revised. They should move away from their agricultural specifics to the development of science-intensive industrial branches and services sectors, in the broad sense of the term. This will considerably increase the share of industrial products and services in the GRP of the SFO and its territories. The employment pattern by branch will also improve in favor of these industries. The GRP and the per capita GRP as well as per capita money incomes will increase because the profit rate in these branches

is much higher than in agriculture. In fact, geography, climate, and the natural conditions make the South of Russia much better suited to competition with the West in the sphere of industry and the services: indeed, other regions are limited to their severe climates. In the future, some industries can be moved from the north down to the south to boost their competitiveness on the world markets.

Agriculture will also be reformed and modernized with due account of the developed countries' experience; labor productivity and the absolute volume of production will increase many-fold, while the products will gradually move away imported products from Russia's domestic markets. Bit by bit the number of people employed in SFO agriculture will draw closer to the average European figures.

The so far undeveloped sector of services in the broad sense will move to the fore in the SFO economic structure due to the Russia's South potential and with due account of the experience of the developed countries and world economic trends. Recreation economy and tourism will develop at a fast pace: the Center will actively help them acquire adequate institutional structures and infrastructure. On the one hand, the South of Russia attracts people from all over the country during the season of summer holidays. On the other, efficient policies in this sphere will help attract those who still prefer to go abroad for their annual holidays in search of better services; by the same token the local budgets will accumulate a lot of money people spend while holidaying. These developments will re-channel the tourist flow and attract vacationers from abroad. The RF government will undoubtedly find money to realize this strategy. Mountain tourism will become especially attractive. The expanding services sphere will create more jobs: the number of employed in it will gradually reach the average European figures. The structure of services will change and extend; consistent development of this sphere will cut down unemployment and transform the SFO territories from recipients into donors of the federal budget.

The SFO foreign economic activity will be radically revised to serve their development interests. They need institutional conditions and infrastructure to carry out foreign economic activities—customs, customs terminals, etc. The Center should help establish direct foreign economic ties between the SFO and the rest of the world—this is done in the civilized countries. This will increase the share of the SFO and the corresponding regions in Russia's foreign economic activities; in fact, foreign trade will become one of the SFO's key economic trends.

From this it follows that under the second development alternative Russia's leaders will carry out its policies in the Chechen Republic and the SFO as a whole with due account of the experience gained in the developed federal states. This will help resolve many of the problems within a short period of time and raise the standard of living; the SFO and its territories will integrate into the single socio-economic system of Russia; they will contribute more to national economy, thus intensifying regional and foreign cooperation.

The second alternative that is much better suited to the realities and the interests of the local people, the Center, and the country as a whole should be promptly realized.