

The Russian Federation Primary Export-Oriented Sectors of Economy Trends

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Abstract: Primary industries are an extremely important category for the economic system of any country. Such industries for any economy are agriculture, manufacturing, construction, trade, transport and communication, and services. The development of the national economy as a whole depends on the health of its primary industries. The purpose of the article is to clarify the situation with the primary industries in Russia and give a brief analysis of their export potential. The methods used are the induction and analysis of retrospective data. The key findings of the article include evidence that the restructuring of the main sectors of the Russian economy is structural and in demand by the national economy.

1. Introduction

There are various approaches to the industries' classification in the economics and national statistical systems, including the classification of primary industries.

- The most popular allocates five primary industries:
- Export-oriented sector;
- Domestic consumption-oriented sector;
- Trade;
- Infrastructure sector;
- Social services sector.

The Russian commodity export sector is the leading one among the primary industries of the Russian economy. This sector generates more than 20% of the added value and 10% of the working places for the Russian economically active population.

Trade is the second sector by revenues, effectiveness and ROE, that accounts for more than 20% of added value and more than 20% of the economically active citizens of Russian Federation. Meanwhile, more than 30% of the recorded companies are operating in the trade sector.

However, the prevailing structure of the Russian Federation primary industries is dynamically changing. The key factors, contributing to the change of the Russian primary industries, are the following:

- Reforms and state programs realization in the state economy;
- Integration of the Russian economy in the global economic system;
- The influence of the geopolitical sanctions, imposed against Russia by the USA and the EU countries.

2. Methodology

When collecting and processing materials for the article, general scientific methods of research were used (generalization, aggregation, classification, comparison), as well as methods of forecasting of economic processes.

The analysis begins with the developing a vision of what the primary industry is in the Russian economy and what these primary industries are in the contemporary Russian economy. The further research provides the analysis of the retrospective data on the Russian exports and their structure along with the agriculture sector production.

The analysis is based on a review of the agricultural sector of the Russian economy, therefore, the authors point out its strengths and weaknesses along with factors affecting the current state of the sector.

The identification of key factors in the development of agriculture in Russia allows us to create a theoretical basis for further research on primary export-oriented sectors of the Russian economy.

3. Results

There are different approaches to the allocation of primary industries in the economy of the Russian Federation.

According to one of them, there are three primary industries: agriculture, manufacturing industry and services sector (Figure 1). In accordance with another one, there are five primary sectors: export-oriented sector, domestic consumption-oriented sector, trade, infrastructure sector, social services sector.

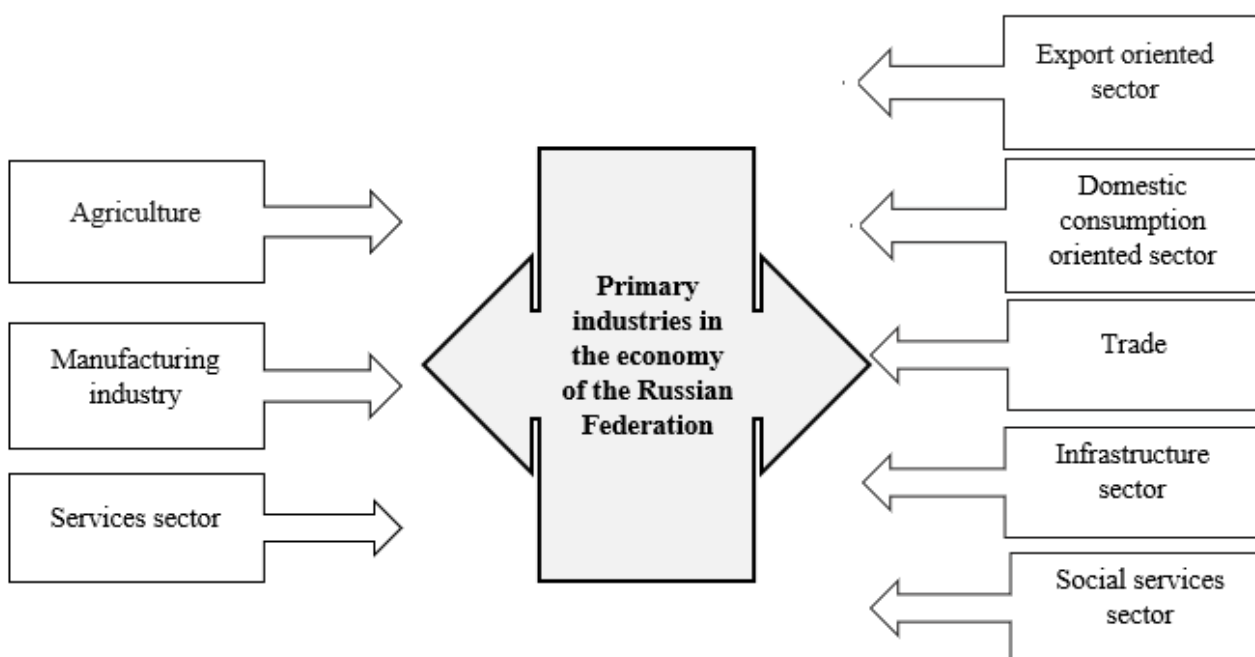


Figure 1 Russian Economy Primary Industries' Classification

Commodity export industries in the Russian Federation are: gas, oil, metal, chemical and forestry industries. The companies of these industries generate more than 75% of goods for export in the global market and create nearly 20% of added value of the Russian economy. The export sector is characterized by high labor efficiency, salary rate; it employs about 10% of the economically active population of Russia. The commodity export industries account for more than half of budget tax revenues.

The commodity export sector is known for its high concentration of production. On average, it contributes 3% to the GDP growth in Russia through the commodity sector in general.

The analysis reveals that the growth in export of the fuel and energy complex by more than 35% in 2018 is due to both an increase in demand for petroleum products, natural and liquefied gas in the global market and an increase in export prices by 7–39% (Figure 2). The start of the “Jamal-SPG” operation in 2017 is a factor of high importance for the production and export of gas. In accordance with the project, the annual production volume of the liquefied natural gas is to be equal to 1.2 million tons of gas condensate exported to the countries of the Asia-Pacific region and Europe.

The volume of exports of metals and metal goods has grown 25% in 2018 (in value terms) due to the increase in prices (by 10–12%) in the global market, and the growth of export volumes (by 11%) (Figure 3).

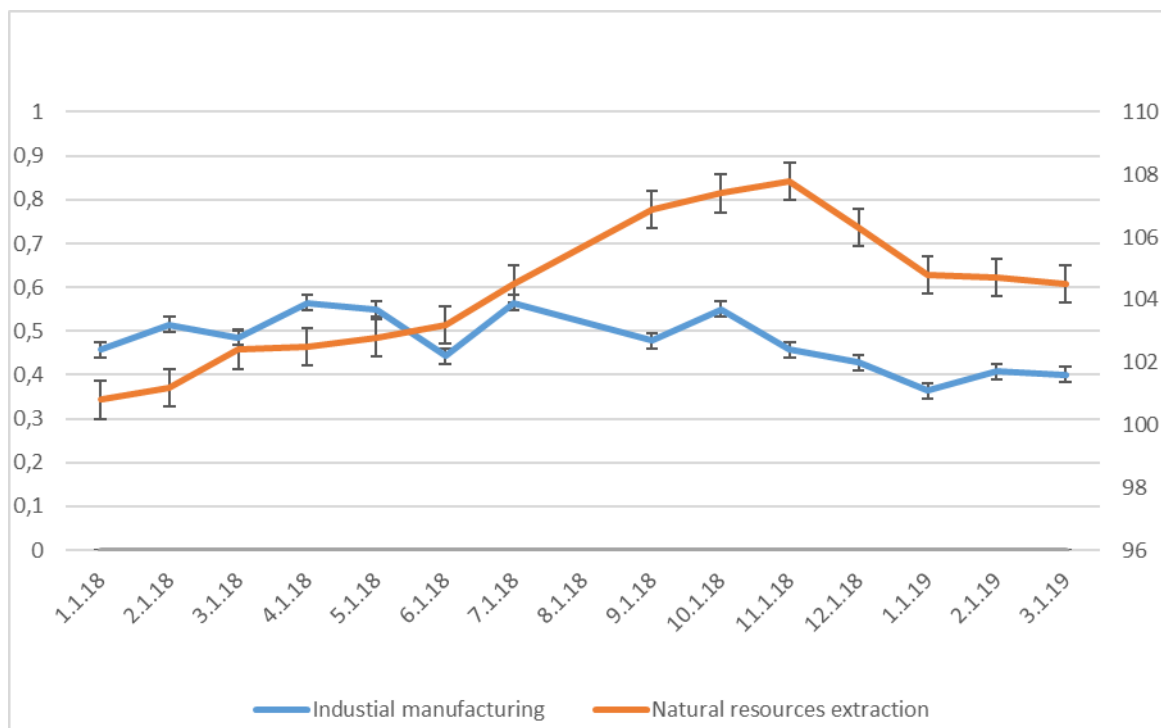


Figure 2 The Dynamics of Manufacturing Industries and the Extraction of Natural Resources in Russia (in % to the Period of the Previous Year)

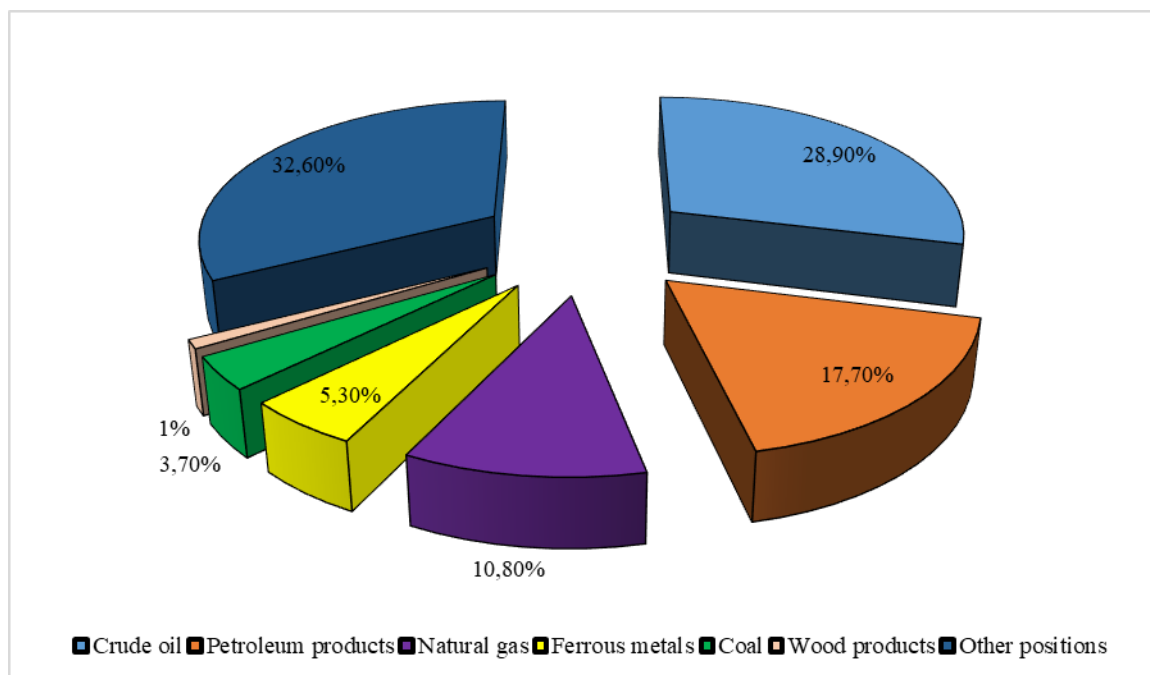


Figure 3 Russian Export Structure in 2018, %

The volume of the chemical industry production in 2018 has grown significantly – by 14%. In view of the wide variety of goods, manufactured by this industry, it is complicated to point out the main factors contributing to the growth of export volumes. For instance, consider a position of chemical industry exports – the volume of exports of caoutchouc has grown by 44%, while the price has fallen by 4%.

The changes in exports of wood-based products, including paper products, by 20% are mainly due to the price increases by 6–42% (on specific items) in the world market.

The basic trends in the Russian commodity export sector are:

- High investment attractiveness;
- Decline in the growth rates caused by the sanctions, imposed by the EU countries and the

USA, and higher competition in the global market;

- The formation of the premises for the export-oriented sector differentiation.

The domestic consumption-oriented industries comprise agriculture, processing industry and construction.

The industries of the domestic production-oriented sector contribute to the GDP growth less than export-oriented sector (15% and 20% respectively). Their efficiency and competitiveness are significantly lesser too.

The industries of this sector provide 25% of working places for the economically active population of the country.

Still, despite high employment rates, low labor efficiency and competitiveness of production, the salary rate in the sector is low – 180\$ per month (the average salary in the commodity export sector is 400\$ per month).

The main contemporary specific features of this sector are:

- The decline in growth of industries, attractiveness for the investments and competitiveness of production, resulted from the growth of imports of similar production;
- Low ROE rates and effectiveness of production;
- Outflow of workers due to the low wages;
- Varied competition between the industries of the sector: high competitiveness is common for the industries that produce a highly demanded or indispensable goods (especially in connection with the economic sanctions, imposed against the Russian Federation by the European Union countries and the USA), these are: food industry, housing construction, aeronautical industry (military sector included), railway machinery engineering etc.

The dynamics of the agriculture sector production data shows a slight growth of production in September–October 2018 compared with the corresponding period in 2017 (Figure 4). The volume of production grew up by 10% during the period of crop production harvesting. For the fourth year in a row, the Russian Federation ranks first in the world in wheat production – its volume is 135 million tons, and it exports wheat to the world food market.

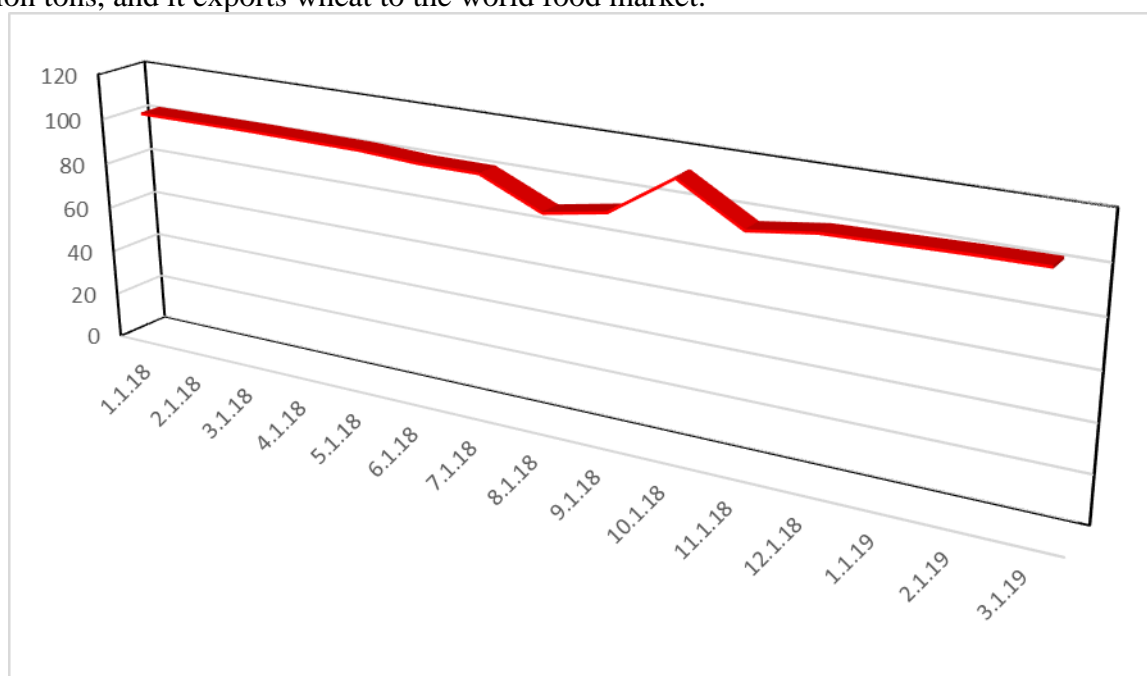


Figure 4 The Agriculture Production Dynamics in the Russian Federation, in % to the Period of the Previous Year

The national agriculture industry of the Russian Federation in general is recovering at a very slow pace. The following reasons for that are:

- Sectoral and institutional restructuring;
- Highly pronounced seasonality, high climate risks;

- Unequal development, soil fertility, and crop yields in different regions of the country;
- Low effectiveness and ROE, high costs and financial risks;
- Outflow of inhabitants from the countryside.

Infrastructure industries sector includes spheres of transport, communication and electric energy. These economic areas are characterized by high capital intensity, like many other manufacturing industries. However, Russian infrastructure industries operate on a vast territory and service more than 140 million population, which is possible due to the scale of their fixed assets, comprising more than 30% of the country's manufacturing potential.

Communication is one of the most dynamically developing sectors of infrastructure: its growth rate is 20% annually, which gives rise to the high ROE of the sector.

The tendencies of the infrastructure industries sector development are the following:

- Decline of the development rates in transport and electric energy industries;
- The rise of the share and rates of capital assets depreciation in infrastructure industries;
- Active investment and growth in the sphere of communication and telecommunication.

Trade is one of the priority sectors in the Russian economy. More than 30% of registered companies and 20% of economically active population operate in this sector. More than 20% of added value is generated by trade.

The industry is characterized by high pace of development, high ROE (more than 10%), high competition, and the modernization of the non-current assets (more than 8% yearly).

The modern tendencies of the development of trade sector are:

- The dissemination of self-service in discounters, staff reduction;
- The increase in capital turnover, reduction of costs and the increase of ROE;
- Development of the e-commerce.

The wholesale trade and retail trade in Russia attract both Russian entrepreneurs and foreign investors. More than 25% of FDI, attracted by the Russian economy, is concentrated in trade. The famous global retailers, namely Auchan, Leroy-Merlin, OBI, Lenta, IKEA, and many others actively deploy their stores in Central, North-Eastern and Volga regions of the country.

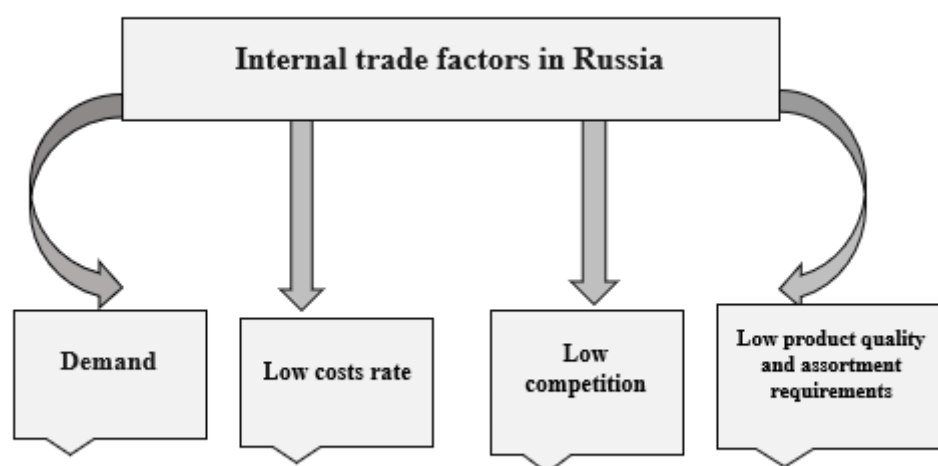


Figure 5 Priority Factors of Internal Trade Development in Russia

The interest of Russian and foreign entrepreneurs in the field of trade is due to a number of factors (Figure 5), the major of them are:

- High demand, associated with a significant number of solvent consumers;
- A consumer, unassuming to quality, assortment of goods and quality of service;
- Low national standards of quality requirements;
- Low fixed and variable costs, mainly due to personal logistics and wholesale warehouses;

- High revenues, profits and ROE
- Low competition between Russian retailers;
- The possibility of producing a number of complementary and everyday goods at in-house facilities;
- Low financial, tax and customer rights protection level;
- The ability of the producer to dictate the settlement system, caused by the possibility of distribution through major retailers, that is extremely lucrative for entrepreneurs of manufacturing and processing spheres;
- The possibility to trade low-quality and obsolete goods for foreign investors.

The social services sector encompasses the following fields: municipal services, education and healthcare. This sector in the Russian Federation is massive due to the significant population, large territory and specific natural and climate conditions. It produces more than 10% of added value, employs 25% of population and uses more than 30% of production potential of the country.

The specific features of this sector are:

- Low efficiency, high share of budget financial resources;
- High depreciation of capital assets;
- Low labor productivity and wages;
- High share of obsolete equipment.

The key tracks of the social services sector development:

- The growth of the moral and physical obsolescence tempo;
- Decline on the workers' qualification level;
- Outflow of workers from the social services sphere to the spheres with higher salary rates;
- State reforms of the industries of the social services sphere.

In general, the analysis of the Russian Federation economy in 2018–2019 demonstrated the extremely low development pace.

4. Conclusion

Restructuration processes are taking place in the primary industries of the Russian Federation economy. The redistribution of the financial and labor resources is caused by the imbalances in Russian primary industries. The decline in development rates due to imports of similar and more competitive production, obsolescence of capital assets, and a decrease in investment activity are common for all primary industries of the Russian Federation. The primary industries and the Russian economy in general are integrated into regional and territorial trade, financial and economic unions.

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