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RUSSIA'S STRATEGY OF SUCCESS: RESOURCES OF ECONOMY AND CULTURE

*Dr. Alexander L. Ageev**

I must confess that the topic of our conference really has strategic importance for all of us, in spite of the fact that history is determined by many events such as earthquakes, winds, revolutions, crises, and so on. These are very messy and objective events. Nevertheless, the key to all of these events is in our minds and our solutions. The key is also found in the cultural patterns of our thinking, our feelings and our actions.

Our great Russian poet, Chuchev, mentioned one century ago that the man who visits this world in its troubled time is a very blessed man. Russia is now populated by people who are very blessed to overcome all of their differences. Of course, I would also like to stress that the University of Tulsa is really challenging conventional wisdom by choosing this topic for the subject of this conference. I think the result of these discussions will have great influence on the work and the thinking of all of us.

I am going to give some consideration to Russian economical culture and its influence on the prospects of Russian economic development. Let me start with some description of the current economic

* The following biographical material is contained in MICHAEL A. MOSHER, *GLOBAL PARADIGMS: THE IMPACT OF CULTURES ON TRADE AND DIPLOMACY — SUMMARY OF THE PROCEEDINGS* (Univ. of Tulsa 1995):

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For a complete summary of the Global Paradigms proceedings, see MOSHER, *supra*.

situation because I am afraid you will ask me about some of these subjects. That is why I will try to avoid some of these questions by answering them in the beginning.

The mass media often gives us very pessimistic assessments of Russian political and economic events. This is done, not only by Western mass media, such as the respected television companies or newspapers like CNN, but it is also done by the Russian mass media. Sometimes when I am deeply involved in watching television or reading some newspapers I get a bit crazy. I think that sometimes the only realistic and logical conclusion from all of this involvement is to pray. But, when you come across all of these assessments and all of these feelings, it gets a bit more funny. For example, a couple of days ago, I read an article in *Business Week* where Russia was assessed as the country with the most risky business climate. That is really funny. This is the assessment of a very respected magazine. That is why I prefer not to use some of our native assessments of the economic situation, but would rather rely on the assessment of the CIA!

The Central Intelligence Agency usually provides a very realistic, and what is more important, a very systemic assessment of the evolution of Russian economic trends. Let me quote some fragments from one recent statement issued by the Slavic and Euro-Russian Analysis Department of the CIA to the Technology and National Security Subcommittee of United States Congress. If we cannot believe in Russian assessments, if we cannot believe in mass media assessments, I think we will see the final place to put some trust is in this assessment. Russia's major achievements in economic reform include the following: the Russian government removed the controls on the ways that the majority of producers and consumers set prices; their old state authorities, in allocating supplies among producers, has fallen sharply; the government promised to privatize state property was extremely successful; and the private sector is accounting for about three-fifths of the gross domestic product, up from one-fifth in 1991. Russia's fallen trade regiments have moved away from the old Soviet system and are now almost free market economic organizations.

In many respects, Russian economic reforms have made enormous progress since the break-up of the Soviet Union. Russian policy makers are quickly learning that a tie between their fiscal and funding policies eventually leads to a healthier and more stable economy. Some articles in the Russian Communist newspaper, *Pravda*, maybe ten years ago, reported great progress. But, of course, some analysts have seen some areas where we have experienced less progress. A key area of these problems is the legal progress made in passing new laws and in the enforcement of existing legislation. The restructuring of the Russian economy has been slow so far. Investments in new, more efficient

factories have been minimal. This is true because we have net fixed investments of about seven or eight percent. This is not so high.

One of the more serious problems for us is crime and corruption. These problems are key factors in Russia's attempt to reform its political and economic institutions. Perhaps more importantly, the growing power of criminal groups is fueling the perception that democratic and free market institutions are inherently corrupt. By the way, that is a relative conclusion.

In the future, much work remains to be done. The task of restructuring Russia's aging and obsolete industrial base is formidable, and it will take years to achieve. It must be done. It is also very important that this achievement be done largely by Russians themselves. Russia itself must move ahead with policies that will instill enough confidence in its future to bring the millions and billions of dollars of capital flight back home and boost private foreign investments. So, all of these assessments are quite relevant to the Russian economic situation.

Now I will make some additional remarks concerning our current economic picture. We have a real gross domestic product decline. It decreased by fifteen percent last year. Industrial output decreased by twenty-one percent. At the same time, our exports increased by nine percent. Imports also increased by five percent. What is more important, real personal incomes also increased about twenty percent. A more important structural shift is found in the share of product consumption in the Russian GDP. It is now forty-five percent. It was only thirty-three percent in 1991. All of these changes have resulted in real growth in consumption. Nevertheless, the level of real incomes, in proportion, is about sixty percent, compared to 1990.

Regarding very sensitive indicators, like taxes, the net taxes in Russian GDP are twelve percent. It was twenty percent only four years ago. These indicators show us a very gloomy economic situation for Russia. But when we look at the great historical process, not only in Russia, but also in the world, we can discover that our current economic situation is much better than that of the United States during the Great Depression. We are in a much better situation now than was Germany after World War I, or Japan after World War II. We are also much better than the Soviet Union after the so-called Great October Revolution. It means that we have enough space to decline more.

I think that all the assessments and predictions that we have, the decline in industrial output and GDP, also predict further decline. It will happen, but I am preoccupied by one enigma. We have been collapsing for a long time. I have heard that since 1987, Russia had economic, political, cultural, social, ecological, and military collapses. Since then, I and many of my colleagues in Russia have left Russia. That is why I think there are some real scientific questions, and some

paradoxes, in the development of the Russian economy and Russian society. To sort things out, it is necessary to look at some of the deep roots of Russian economic culture.

Culture could be defined as a complex of variables that are the shaping aims and means of the behavior of economic agents. The least of these variants is political, for all nations having similar economic experience in getting through the same stages of technological development. However, unique cultures face unique problems. Of course, they are influenced by many events, first of all by successes, and especially by repeatable successes in economic development on macro or micro level. Of course, failures also provide some very serious influences on economic culture because they can eliminate some part of a certain behavior. Very serious importance is connected with the quality of leadership in all levels of society. I have spent much effort studying Russian and Western economic cultures. In the literature there is a different systematization and costification of economic culture and all of it makes sense. But for aims of economic analysis, I think we can use three criteria to assess economic culture, its various aspects and its traditions.

These three criteria are as follows. The first one is the potential for mobilization of resources. The second one is the so-called "accumulatedness of culture", by which I mean the ability of the economic culture to accumulate different patterns of economic development. Countries that succeed not to destroy all experiences usually have more chances to be more successful. The third criteria is the effectiveness of the organization of the culture, by which I mean leadership and the ability and quality of translation of this culture. Of course, in all speeches, it is impossible to provide a systemic and well-proven picture of Russia's economic culture. However, let me give just a few characteristics of the real Russian economic culture.

It seems to be very important because, in very many notebooks, in very many scientific books, not only in the world but also in Russia, we can find a very simplified picture of Russian economy. This simplification provides for wrong forecasting for future prospects of the economy. These simplifications make, and provide, some ideas about the "sleeping giant." It is also very funny. Imagine the "sleeping giant", Russia and the Russian people in very cold and very hungry conditions. You cannot sleep in these conditions. Nevertheless, I would like to stress five principle features of Russian economic culture.

First of all, there is the so-called "break through ability." Russia, during this century, has proven this ability several times. Our space program, our nuclear program, our software program, our aviation program, and a lot of other examples of mobilization of capital resources, like people, have shown Russia's capacity for solving prob-

lems. There is only one disadvantage of this feature. It provides for a wave-like pattern in the way of economic development.

We have very serious entrepreneurial traditions in the Russian economic culture. There are also many assessments defining the Russian economic traditions as non-entrepreneurial, non-market traditions belonging to a country with an extremely centralized economy. But imagine, this assessment also has been identified with individuals like Stalin, Lenin, Brezhnev, Chernyenko, or other very wise people. They decided for a great nation, two or three hundred million people, despite a very wrong application of these great abilities, to regiment a way of life and a way of work for so many people. Of course, all the breakthroughs we had would have been impossible with a lack of entrepreneurial spirit. They were very specific and unique entrepreneurial traditions, of course, a so-called Soviet-type of entrepreneurship. It was nevertheless the creation of new enterprises, even the creation of new industries. It was profit-seeking behavior. It was some new combination of factors of production. It had all the necessary symptoms of entrepreneurship. Entrepreneurship should be characterized by two fundamental features.

First is the creation of new organizations and new combinations of factors of production. Second is some level of economic freedom. The Soviet Union had, especially since the 1960s, a rising level of economic freedom. Sometimes it is impossible even to imagine this level of economic freedom. Now Russia is a country with the highest level of economic freedom in the world, in general because we do not have many limitations for entrepreneurial initiatives. This could not be born overnight. It was tradition. It was the accumulation of different patterns of behavior of different great people who succeeded in destroying the common administrative system.

A very important feature of our economic culture is the two-faced character of the Russian economy. So we have, and we had at the time, very high-tech industries and very primitive organizations, very primitive regions and extremely highly educated people. We also have very stupid people. That is life, I think. Every country has this inevitable combination and this duality of economic structure. It means our technological development was a bit unique because to have economic development, you need to sometimes have a time of destruction, a positive destruction, and scraping off of your economic resources and physical essences and, at least, some retraining.

In our history, even in this century, we have been forced to lose too much. Too often we have lost all of this capital because of some external or internal enemy. I do not mean only taxes and wars with some external countries, but also Russia has had a very serious, and I think very deep rooted, struggle against internal enemies like the Bol-

sheviks. It was also a scraping of the nation's capital, even in a physical sense, when the country lost half of its cattle. It was destruction, negative destruction, really. That is why Russians like to keep everything that they succeed in taking. That is why we have some poor populations. However, this population has a great propensity for savings, savings of financial resources and savings of some material resources. These principles, these variables of economic history and economic culture of Russia also provide very strong motivations for the population to have economic successes in their personal life. Just out of Moscow you can find many new houses and construction of houses. In ten years you will not recognize the suburbs of Moscow. That is also a reason and that is an economic tradition.

There is a Russian economic variable, a high level of centralization. Russia has several diversified regions. In our current situation, it is an inevitable evil because only ten regions are really material profit regions. Regions like Oleg, Moscow, and St. Petersburg will provide money and different financial materials for some other regions that are in a depressed state. It is impossible to divide all these regions into states, some of which are more prosperous and some of which are less prosperous. It is necessary to have a high level of redistribution of economic health. There are some external threats. This country needs to have some level of expenses for externalities and for some problems of security.

The last important feature of Russian economic culture is openness. In spite of the different worlds and different Communist barriers, Russia was, and is, a very open country. We can see this openness in the expansion of many Russian organizations to Europe, throughout the world, even near Oklahoma. Our leading oil company, Lukoil, established a new headquarters. This is also an example of the expansion of Russians into the world. We can describe different flaws of this openness, but maybe while they are more important, if we try to analyze the structure of the American population, we can find a lot of people with Russian backgrounds. Well-known civitologist Marshall Goldman mentioned that Russia has somehow enriched many countries with musicians, poets, engineers, and even politicians. However, Russia has received no payments for all these gifts.

As to the so-called market transition and the changes in Russian economic culture connected with all these changes, I think there are maybe a couple of necessary remarks. First of all, until the 1960s, a majority of market functions in the field of investments, pricing, and allocation of resources was incorporated by the state, more exactly by some state departments, ministries, and other organizations. Since the 1960s, more and more of those functions were transformed in favor of the "invisible hand." Even in the 1980s, we had a market economy

that was driven by this "invisible hand." It was impossible to do it overnight. That is very important to consider. Of course, some reforms — some shock therapy — were important instruments. Nevertheless, it was not the only, or even the main feature, of the Russian transition to a new type of market economy.

Making some conclusions concerning Russian economic culture, I would like to stress two important things. First, we have an economic culture that has a very deeply rooted market character. Expressions of this market character have been quite different at many times. Sometimes we can face very unusual forms of market economy and entrepreneurship. By nature, all of these expressions were market expressions. That is why these conclusions are very optimistic in favor of entrepreneurship and market economy. The Russian economic culture was a culture of victories in many cases, not only failures.

Now all these victories can be found in Russian competitive industries. It is also a very popular myth about Russia that it has an incompetent economy. That idea is extremely wrong. Russia has a very large package of competitive advantages. I do not speak about the well-known Russian advantages in the raw materials sector or about Russia's boundless space, or even about the Russian labor force. Sometimes, unfortunately, the knowledge of all these advantages has a negative political guise. I keep in mind many talks with highly respected Russian politicians who often were acquainted with Russian economic realities only through *nord* books or through comics. I was lucky because I got some knowledge about the real economic life in Russia in the many companies I visited in many regions. I have a comparative picture of the real life in companies in the United States, South Korea, the United Kingdom, and Germany. One can make a well-grounded conclusion: Russia possesses many serious and highly competitive companies and some important industries, like aviation. About six months ago, we had one very interesting experience. A few dozen engineers and workers from American aerospace companies were working in some Russian aerospace companies. We discovered that there were no differences between their skills or their culture. They were similar to each other and had the same level of economic competence.

In general, competitiveness means the ability to produce and to sell products and services in the world market. Russia has unique abilities in space, aviation, telecommunications, transportation, technological equipment, and software. Possessing all these advantages, Russia is a real member of the world club of competitive industries. However, there is one very sensitive point in this assessment.

Almost all Russian competitive ventures are allocated in so-called "strategic" industries, and they are still politically very sensitive. Even

Russia's raw materials sector is still politically very sensitive. *Newsweek* wrote, maybe one month ago, that the United States tried to prevent European countries from becoming dependent on Russian sources, particularly natural gas, in the 1970s. Today, *Prom* provides about one-fourth of all the natural gas for Western Europe and about 100% of the natural gas for Eastern Europe. This is a really competitive industry. The *Newsweek* article assessed that *Prom* is one of the best world companies. It is driven and managed by real professionals. Other industries also have the same kind of companies who are leaders in technological and economical development. Many of them are not known to the world market because they were closed industries and because the internal market demand was quite sufficient for them until beginning of the 1990s. I would like to mention Lukoil, Amarazi Oil, and Best Russian Aviation Enterprises as a few examples. Many of these companies will soon become transnational companies. They will be real economic successes and real economic miracles of Russia.

The involvement of these industries in very hot political issues makes us more sensitive to understanding the prospects of cooperation between Russia and Western countries. Of course, these industries made great contributions to the creation of Soviet military munitions. More than sixty-five percent of machinery industries were producers of armaments. We do not have information that all these military industries provided 100% of all consumer goods. They were the embodiment of the best human and physical capital.

When we consider the condition of our corporations in different competitive industries, we can find three different types of situations. The first type is a corporation in the oil and gas field or some other strategic minerals industry. These corporations have extremely favorable business conditions with many investments, a large amount of credit, and numerous joint ventures. There is enough cooperation. These industries are a priority for joint ventures with almost all Western countries. The second type are some of the traditional industries, such as textiles, electrical equipment, and transportation. Here we are faced with, in many situations, some very unpleasant discrimination. Third, in the high-tech industries, there is really a lot of unequal gain. These industries are the real Russian economic future. Without developing all these industries, we cannot survive. There will be too high a price, the price of destruction of the best technological traditions. If these industries are destroyed, the damage will affect the entire world because science has a global character, and global industries share this global character. That is why I consider saving these industries to be an important global problem.

Today there are too many countries in the world trying to become high-tech countries. For us, it is not an empty question of who will be

our allies or who will be our partners. What is the ability of current economic development, which is really a colonial-type of development, to help us? We are too dependent on world prices of oil and gas. That is not good because some of our other industries are in real decline. It is in our deep national interest to develop all these industries: space, byculture, new materials, telecommunications, computers, and some other industries. This deep national interest poses a question of great responsibility for those who create partitions in our countries.

Fortunately, there is enough evidence that there is a process of cooperation. Some signs make me a bit more optimistic in this field because we have good cooperation in aviation. We now have much more cooperation in the field of certification for aircraft and our economies are very compatible in this field. Moreover, there are the classified subjects, like prediction of coming wars. Of course, tanks, submarines, and airplanes are the equipment of old world wars. In this century, we will see new, very principled wars or struggles with new military equipment based on microprocessors, telecommunications, and other extremely high-tech technologies. Russia has some very serious achievements in this field. During my visits to government offices in Oklahoma and Colorado during our negotiations with some companies, I expressed a very unusual idea about cooperation, even in the military aviation field. We could produce a common fighter, for example the F-29, a combination of the F-22 and the MiG-29. This would be a viable solution since markets are shrinking and competition, unfair competition, is dangerous for both sides. The Europeans are trying to produce the Eurofighter for the next century. But even this so-called "fighter of the future" will be no better than our current MiG-29.

There is no reason to waste all these resources. If there are some new threats to the national security of the United States or Russia, and if they are not connected with our different types of cold wars, we should combine and increase our cooperation in the field of military aviation. These attempts will make it possible to establish a real basis for friendship and partnership.

It is a strange package of ideas: economic culture, competitiveness, and Euro-politics. Culture provides too many ways for even thinking of our politicians. Summarizing all the things I have said, there is one Russian principle of assessment left — a sense of life that means the combination of a pessimistic way of thinking and an optimistic way of acting. I think only this combination can provide real economic success. Russia is going this way.

