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The “Made in Russia” strategy: a limited instrument for economic diversification

Thanks to the efforts of the authorities, the diversification of the Russian economy is progressing, particularly in certain sectors such as information technology, pharmaceuticals, the automotive industry and the agri-food sector. In the latter case, the process was encouraged by Russian counter-sanctions adopted as a response to Western sanctions. Economic diversification is regarded as a way to simultaneously reduce the country's dependence on imports and on hydrocarbons. However, the diversification faces structural barriers. It is subject to the availability of inputs, the modernization of the productive apparatus and the improvement of the business environment. The requirement to substitute local production for imports and/or increase local content is limited by the availability and quality of local components. Additionally, the development and modernization of local production chains very often require the import of machinery and technology from Western countries. The current and, potentially future sanctions and counter-sanctions, the business environment (rated B by Coface, 5th notch on a scale of 8), the increasing political risk and the lack of available workforce weigh on domestic and foreign investments. In addition, raw materials (including hydrocarbons) still play an important role in the economy in spite of a weaker link between oil prices and economic growth. This is a result of the new fiscal rule aimed at disconnecting the economy from fluctuations in the oil environment and the growing influence of the political context on capital flows at the expense of crude oil prices.

Diversification is in progress

Diversification supported by the public authorities and encouraged by Western sanctions

This movement is part of an industrial policy that began in the early 2000s, after a decade of upheaval in the industrial structures of the Soviet era. The 2020 Strategy report issued in 2007 was formalized by Federal Laws n°57 dated 29 April 2008 and n°217 dated 2 August 2009¹. They focused on modernization, technologies, innovation through special economic zones, clusters, human resources and education. Then, the Industrial Strategy 2030 was formalized by the Federal Law n°488 dated 31 December 2014. This text provided a foundation for the import restriction

and substitution policy adopted in the agri-food sector in 2014 in the aftermath of Western sanctions. It also provided (in its sectoral versions) a targeting of projects and public funding, a rapprochement between research and industry and a support to exports. The Russian Export Centre was created the same year regrouping promotion, financing and insurance. Special investment contracts designed to encourage foreign investment were created the following year. “Made in Russia” was encouraged by selective tax cuts, privileged access to public procurement and favorable credits to finance export projects (Decree 719). Legislation on clusters and industrial parks was strengthened. Western sanctions, the sharp drop in oil prices and the concomitant devaluation of the