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Oil and Gas Factor Role in Russian Modernization: Optimal Strategy Search

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Abstract: The study analyzes the leading expert points of view on the role and place of the "oil and gas factor" during the implementation of the modernization according to the Russian model. It is defined as the increasing importance of oil and gas complex in the socio-economic development of Russia and its geopolitical position. The study draws the conclusion about the importance of a priority accurate choice, the consideration of international and domestic experience in order to overcome the inhibition of modernization processes.

Key words: Russian modernization, optimal strategy, geopolitical position, socio-economic development, oil factor, gas factor

INTRODUCTION

In a changing geopolitical situation and at a critical importance of a clear priority, the most appropriate modernization strategy and the mechanisms for its implementation selection, there is an increased need for Russian model specifics understanding and the so-called oil and gas factor as one of the most significant factors for the domestic and Foreign situation of Russia.

The study of catch-up modernization experience is one of the most relevant and controversial issues in recent years (Krasilshchikov, 2004). A number of researchers argue that a Foreign experience of Latin America for example, proves that modernization within the market conditions, accompanied by a hasty, forced liberalization, the insufficient support of local company innovative activity, the lack of targeted institutional reforms leads to a country backwardness to a neocolonial dependence (Shapiro, 2013). The creator of "Singapore miracle" Lee Kuan Yew, the former Prime Minister of Singapore, emphasized that the countries which liberalize their economies can not succeed: "If your culture does not pay a great attention to learning and education, to a hard work, to thrift and the willingness to sacrifice present pleasure for the future payoff, the progress will be much slower" (Zakaria, 1994).

In general, the total reconsideration of this problem may be described as a very complex and a contradictory process. Already during the 80th of the last century, the Western scholars indicated the hypertrophied role of oil and gas in the USSR development and noted the negative consequences for the economy, the declining oil production, the fall of prices, paid attention to the ineffectiveness of the management system and the need for this industry modernization (Clem, 1988).

The importance of the country oil and gas sector for its socio-economic development and geopolitical status in recent decades was mentioned by E.A. Telegina, A.A. Igolkin, M.V. Slavkina, M.M. Kozenyasheva, V.I. Kostorichenko, A.I. Galkin, A.A. Matveichuk, Y.V. Evdoshenko, G.G. Vahitov and other well-known experts.

MATERIALS AND METHODS

Thus, the scientific publications of Slavkina (2012) substantiate the conclusion that oil and gas during the post-war and post-Soviet periods became a backbone element of the world economy which makes a direct impact on the growth rate, the economic situation stability, the level and quality of population life. The researcher quite rightly believes that one of the main features of a national modernization and the factor determining its geopolitical position is the presence of significant hydrocarbon resources. For example, the oil export at all stages of the Soviet Union was closely correlated with the priority tasks for a certain period which could be mainly economic ones (20ies), political ones (a sharp rise of oil supplies in Germany (1940)) or ideological ones (oil supplies for CMEA countries).

The president of "LUKOIL" OJSC (one of the largest oil companies in the country) Alekperov (2011)

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reasonably states by his research "Oil of Russia. Past, present and future" that OGC of Russia throughout the whole complex and contradictory period (which began in the 90s of the XXth century) of economic, social and political transformation provided not only the economic survival of the country but also created the foundation for subsequent sustainable socio-economic development. Some experts expressed more emphatically and clearly: "Almost anything that Russia at the turn of a century was nothing more than the rent from the use of its natural resource potential" (Lvov, 2001).

An academician, the director of Oil and Gas Problems Institute of RAS, Dmitrievsky (2011) is convinced that oil and gas sector due to certain objective natural and geological conditions should be an initiator and the major consumer of high technologies in the 21st century, provide the funding for further modernization. Recommending the use of resource and innovative option for the modernization, the famous scientist mentions in this regard the value of "Second Baku" resources for the post-war reconstruction of the national economy and its modernization. The primary sector which is in dire need of scientific, technological and technical innovations is the domestic oil industry as the vast oil resources may not be taken without a powerful stream of modern equipment, the development of new technologies, especially petrochemicals, gas chemistry. The funds received for the product should be invested in a new high-tech-in engineering, power engineering, electronics, nanotechnologies and other technologies.

The researcher Kozenyasheva (2011) also claims that the Russian oil industry, playing a backbone and multiplicative role in the Russian economy does not show, however at the moment some postmodern impulses and is in dire need of giving her a rapid investment and innovative development in accordance with the vector of post-industrial trends. It will also contribute to the change of its raw material status in a globalized energy space (Kozenyasheva, 2011).

According to the member of the RF Academy of Sciences, Telegina (2012) in the 20th century the global energy, playing a significant role in the world economy functioning and development became "not only a technological development factor but also an important geopolitical component of international relations system, determining, often, the main vector of world politics and regional cooperation development in respect of various public interests". At the same time, the energy factor according to the researchers of the monograph "Hydrocarbon economy" "demonstrates not reasonable and predictable policy based on the resource power but a high volatility, the increase of political risks and political confrontation due to the increasingly frequent use of it as the means of political pressure".

RESULTS AND DISCUSSION

A complex geopolitical situation in 2014 clearly confirms similar findings: Some experts diagnose the state of the Russian economy as "Dutch disease": a high attractiveness of OGC led to the inhibition of all other industries. The business of the Russian oil and gas sector is dependent on political conditions. Besides, the government sets a high level of rent that prevents technical modernization, even the upgrade of infrastructure and equipment in the energy sector. The concept of "Dutch disease" appeared when the netherlands began to explore actively the oil and gas fields of the North Sea in 60-70th of the XXth century. It was discovered then that rich natural resources may not accelerate but slow down an economic growth even for the most highly developed countries. This effect is primarily explained by the fact that the oil and gas industry and the sectors serving it directly attract all investment, reducing the capital investment in other more high-tech industries. However in Russia as in many other developing countries, another mechanism of "resource curse" is operated: the abundance of raw materials hinders the reforms of economy discouraging the incentives for a change among the country leaders. The Russian mutation of "Dutch disease" gave rise to the phenomenon which the inhabitants of the Netherlands unlikely know the slowdown of institutional reforms. Instead of new "game rules" development that multiplies the national wealth, the entrepreneurs and the government prefer to redistribute the existing natural wealth (Latov, 2009). The discussions about the "resource curse", the "oil curse" are held for a long time and we consider they are unproductive: we know very impressive examples of these gifts of nature use for the benefit of the country. Meanwhile if after the crisis of 1998, there were some positive trends for RF OGC development the growth of production in all OF its branches, then at the present time, the reserve of its strength (established for decades) is almost exhausted.

Thus, currently one of the most critical and the most discussed issues is the issue of overcoming the "raw material" model of development, the choice of priorities and the determination of the oil and gas sector role in the modernization strategies. Currently, few people doubt that the content and effectiveness of a public policy in oil and

gas industry determines not only the political and economic future but the geopolitical position of Russia. The energy complex as a whole is the foundation of economic development as it provides currently 30% of gross domestic product, 50% of budget revenues and nearly 70% of export potential. It spends the fifth part of all investment in industrial fixed capital (RREM, 2014). Despite the favorable forecasts for the production and export of hydrocarbons, Russian OGC is subject to a wide range of serious problems that may slow down the economic development of the country as a whole. And, it's not just about the prices. The main thing according to the just opinion of the academician A.E. Kantorovich, "it's not about the extraction share of minerals. The issue is in their use" (Archives of the State Duma). Today the rehabilitation and modernization of the country industrial potential is required, the dialogue between the government and the scientific community, the investment in science, the exploration, the introduction of an optimal tax policy are necessary. It is important to develop OGC staff and their spiritual, professional and ideological values which do not contradict with the Russian mentality. It will be the best way of investment attraction to overcome the daunting process of "brain drain" and corruption. Thus, it's hard not to agree with the President of the Russian State University of Oil and Gas Named after I.M. Gubkin, Professor Vladimirov (2009): "Certainly, the technological modernization of Russia (which is discussed a lot recently) is inconceivable without the development and improvement of engineering education, based on the best traditions of the Russian engineering school and taking into account the requirements of the business and the international community concerning the level of technical personnel training". Vladimirov (2014) rightly believes that "the shortage of new generation staff is one of the main reasons for our slowness in oil extraction development".

CONCLUSION

Thus, the uneven type of modernization, the overcoming of stagnation after the forced economic growth and the increase of technical and technological gap with the mobilization methods of all limited resources is defined by a significant part of researchers as one of the main features of Russian historical path. We believe that the economic policy of Russian government at all stages of the country history is derived from the modernization strategy. The result of the modernization effort was also largely dependent on the industry state and on the oil and gas industry of the country at a later stage. Moreover, we are convinced that the so-called "oil and gas factor" was one of the most important ones during the analyzed period. In the mid 80s, USSR urgently needed a new modernization after the completion of the late industrial stage of modernization desperately needed a new modernization. The failure of attempts to implement its new phase, i.e., "perestroika" was due to the management failures as well as due to external economic and political situation and became one of the reasons for the USSR collapse. The crisis of the Soviet oil industry which was observed during the late industrial stage of the country modernization of was a system one and determined to a large extent the catastrophic events for the country. The stagnating economy which was accustomed to significant revenues from outside, alongwith the falling of oil prices and the developing inflation, the attempts to realize too costly and inaccurate version of modernization, the increasing demands of OGC for huge investments to maintain the production volumes and rearm could not be saved. It is obvious that in many aspects OGC ensured the survival of the Russian Federation in terms of deindustrialization and demodernization during the transition period. The economic growth at the beginning of the 21st century within the favorable situation at the world oil market was only a recovery one. The power ignored the Russian specificity of modernization and the significance of social-cultural and social-state factors, the recommendations of the leading scientists and thus we have the current economic situation now. Analyzing it, the experts agree on one thing: it is impossible to develop a long-term strategy of sustainable growth, the development of a competitive and innovative economic development model only on the basis of natural resources preferential use. The center of economic analysis warns that the increase of primary export good production in total exports by 25%, slows down the economic growth per capita by 0.5-1% per year for the long term (Milner, 2010). The economic development of the countries with raw materials export model of the economy has an uneven pace of development, a special, sometimes devastating, dependence on external fluctuations.

The year 2014, became the turning point in world and national history and confirmed this conclusion. No matter what the situation will be in the future, an own effective real economy sector is the condition of a country national security and integrity. The debates concerning an economic policy model and the role of oil and gas complex for self-sufficiency, stability and dynamism became even

more urgent amid the falling of oil prices. The principal conclusion of this study researchers is that the so-called "oil and gas factor" may not be excluded from a number of key factors determining the vector of Russian modernization. The conclusions about the need for a more active government role in the modernization process seem to be legitimate: the implementation of a number of large-scale long-term projects is possible only with the state support provision. An active role of a state is determined by time factor which plays against the Russian Federation now. We believe that the Russian OGC has the potential to act as the driving force for modernization processes, even if the terms are are very difficult for this sector and the country as a whole.

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