



The Priorities of Socio-Economic and Financial Development of the North Caucasus Federal District in the Current Geopolitical Situation

Petr Akinin^{1*}, Valentina Akinina², Inna Alimova³, Natalya Viderker⁴, Aleksandr Ter-Akopov⁵

¹North Caucasian Federal University, Stavropol, Russia, ²North Caucasian Federal University, Stavropol, Russia, ³North Caucasian Federal University, Stavropol, Russia, ⁴North Caucasian Federal University, Stavropol, Russia, ⁵Institute of Social and Political Studies, Russian Academy of Sciences, Moscow, Russia. *Email: akinin_pv@mail.ru

ABSTRACT

The aim of the research is to establish the priorities of the socio-economic and financial development of the North Caucasus macro-region within the boundaries of the federal district in the current geopolitical situation. The results of the research show in details the priorities of socio-economic and financial development of the North Caucasus Federal District in terms of import substitution and finance rationalization under the current financial crisis and international sanctions against the Russian Federation. It is a well-known fact that more than 30 nations declared this territory the area of their strategic interests. The Caucasus became the subject of so-called "pipe wars;" it also became "a buffer zone" in the distribution of the Islamic state model. We have a new strategy of working with migrants in the Islamic regions of Russia (Gabdrafikov et al., 2015). Previously, the Caucasus region has been the outcome for migrants, but today it has become to develop new models for the socio-economic attractiveness of the region (Karepova et al., 2015). Statistical, monographic, sociological methods as well as logical modelling have been used in the research.

Keywords: Sanctions, Strategy, Cluster, Import Substitution

JEL Classifications: F51, L12

1. INTRODUCTION

The North Caucasus has always been the region of great importance for Russia. Consequently, the Russian Empire was struggling for the whole Caucasus and for the North Caucasus in particular.

The specific features of the North Caucasus and its importance can be described in more details in the following way.

Firstly, it is a region with the most important main roads which are the shortest ways to the near and Middle East, the Black Sea, the Sea of Marmara and the Mediterranean. Secondly, the region is a potential center of petroleum development. Thirdly, it is the most important strategic base area of military presence of Russia in the South. Fourthly, it is a region with the highest density of the population. More than 140 nationalities that belong

to various linguistic groups, religions and cultures live there. In fact, it is a "testing area" for the ideas and principles of the Russian federalism. Fifthly, it is the region where the problems of the global confrontation of two world religions - Christianity and Islam - directly manifest themselves. Sixthly, the North Caucasus is a vast territory rich in natural resources that have not been explored and developed to the full extent. Seventhly, under conditions of serious demographic situation the region possesses a huge potential.

Thus, the North Caucasus is vital for Russia in geostrategic and economic sphere. The country cannot lose its base area historically gained in the confrontation with world powers as well as it cannot let the Western "ring" restraining the living space of the Russian Federation meet the "instability arc" in the South (Akinin and Jidkova, 2014). Nevertheless, nowadays the North Caucasus is viewed as an undeveloped, depressive and criminalized region.

As a respond to many problems and contradictions in the region, a new North Caucasus Federal District (NCFD) with its capital in Pyatigorsk was founded according to the Decree No. 82 of the President of the Russian Federation dated January 19, 2010. The district has its specific mission - it is a Russian outpost in the Southern and South-Western directions which represent the country's strategic interests.

It performs the function of a barrier against the expansion of the international terrorism threat, military and political adventurism and Islamic extremism along the arc of political instability running through the southern borderland. Islamic extremism uses traditional values of Muslim nations to promote the ideas of Jihad and Gazavat (Karabulatova and Sayfulina, 2015; Karabulatova et al., 2014).

The creation of the district has reflected and fixed new concepts of geopolitical situation and geopolitical area in the south of Russia.

The decision on the foundation of NCFD was based on a number of aspects:

- Military-strategic
- Geopolitical
- National-political
- Socioeconomic
- Ethno-confessional
- Mental-cultural.

The appearance of the new district helped spread the power of the authorities on the territories characterized by high social tension, focus attention on the practical solutions of the urgent problems, concentrate financial, human and material resources.

Further development of the district resulted in the creation of the RF Ministry of the North Caucasus Affairs (the Decree of the RF President No. 321, dated 12.05.2014).

The accumulated problems and contradictions had to be solved without any delay, which led to the development of the Strategy for Socioeconomic Development of the NCFD until 2025 (Akinin and Frolova, 2012; Strategy for Socio-Economic Development of the North Caucasus Region to 2025).

Nowadays, as the district has been functioning for 5 years since the beginning of the strategy implementation, we can make some conclusions and adjustments. In addition, the global geopolitical situation around our country and its regions has changed drastically. These circumstances have caused new priorities of socioeconomic and financial development. These priorities regarding the North Caucasus will be discussed in the article.

Despite of the certain amount of criticism, we consider the abovementioned strategy to meet the situation and challenges of the period. However, it is important to mention the following. Firstly, it was developed at the time when the country was thought to have overcome the crisis, but, in fact, the crisis is manifesting itself to the full extend now. Secondly, the development of the new wave of crisis coincided with the imposing of the international sanctions against Russia. Finally, practical knowledge of the

new district performance the analysis of which will be of great use for the development of new plans and programmes has been accumulated by now (Alekseenko, 2015; Kraynova et al., 2015; Karepova et al., 2015; SKFO: 5 years on the road to success, 2015).

Regarding sanctions, it is necessary to mention that they have been imposed against the most competitive industries: Nuclear, aircraft and space industries, military-industrial complex, oil and gas industry and banking sector (Moment of Truth: Russia and the Western Sanctions).

2. MATERIALS AND METHODS

In the function of the main materials the media publication are used, and their comparative study constituted the subject matter of the present article. We also used the open statistical sources; they are allowed to make a prediction about the future development of the North Caucasus.

The events in the South-East of Ukraine were just the cause to introduce these sanctions. The reunion of the Crimea and Russia can be regarded as the starting point of the end of the unipolar world. However, it still exists, there is a superpower and it has to be taken into account.

Now let us consider the global financial crisis that has not disappeared anywhere. Due to the favorable conditions in the global oil and gas market the economic situation in Russia improved in 2009-2013, which bore the illusion that the country successfully overcame the crisis.

At this point we should note one more crucial aspect. Today's global crisis is not the economic recession as it is commonly viewed. It is the crisis of the neoliberal model (the US-centered in its form and oligarchic in its essence) (Moment of Truth: Russia and the Western Sanctions, 2014). In recent years, the external signs of its manifestation have been freezed by the huge financial emission and military expansion. Nevertheless, the crisis phenomena are increasing. The pyramid of derivatives, debts and inequalities is getting higher which threatens with catastrophic breakdown. It is important to remind that the external debt of the USA is about 18 trillion dollars (US National Debt, 2015; Markevych and Yurchyshyn, 2014). These pyramids can be saved only by the acquisition of new resources and territories, and it is a well-known fact that these resources can also be found in Russia. Our country occupies 14% of the Earth's surface, 0.5% of the world's population live in it, and it has a full range of natural resources, which comprise 40% of the world's reserves (Moment of Truth: Russia and the Western sanctions, 2014). Statistical data were correlated with the results of other researchers and copyrighted material (Karabulatova and Polivara, 2015; Ryazantsev, et al., 2015; Ryazantsev, et al., 2015; Pismennaya, et al., 2015). The analysis of characteristics represents the main focus of this research.

3. RESULTS

As noted above, the North Caucasus is the territory of the strategic interests for many foreign countries. The priorities of the

socioeconomic and financial development of the North Caucasus under conditions of current global financial crisis, international sanctions and its 5 years existence as a Federal District are shown in Figure 1.

There we suggest two large segments - import substitution and finance rationalization. It is obvious that import substitution should be implemented in the agricultural and tourist-recreational clusters due to the fall in ruble exchange rate.

It should be taken into account that agricultural sector of NCFO contributes greatly into the country’s food security - it produces 45% of grape harvested in Russia, more than 10% of crops, fruit and vegetables, more than 5% of sugar-beet.

There are 11% of cattle and 40.8% of sheep of all Russia in the farms of the district. The district supplies 7% of milk and 44.2% of wool produced in the country (strategy for Socio-Economic Development of the North Caucasus region to 2025: Approved by the Federal Government, 2010). As regards the prospects of tourism development, it should be stressed that there are 6 state natural reserves, 2 national parks, 7 state wildlife sanctuaries (Strategy for Socio-Economic Development of the North Caucasus Region to 2025: Approved by the Federal Government, 2010).

The following factors contributed to the revival of electronics in the region:

- Firstly, it was a fairly well developed industry in Soviet times.
- Secondly, current geopolitical situation forces the country to produce domestic hardware components and final electronic products; the necessity of such decision has been partly caused by the latest scandals involving scanners and sophisticated viruses found in foreign products.
- Thirdly, one of the conditions for the development of electronics industry is favorable ecology in the region.

The creation and development of automobile industry cluster is a landmark initiative that needs to be discussed in more details.

On the whole, the automobile industry is the most dilapidated sphere on the former Soviet Union territory. Nevertheless, all the hopes for the country’s revival are connected with this industrial sector, but, why exactly in the North Caucasus? Where did this center of economic growth appear from?

About 2012 the “Derveis” automobile company (Figure 2) was founded in Cherkessk which is the capital of Karachai-Cherkess republic. The name “Derveis” was derived from “Derev,” the family name of the company’s founders.

The cooperation with Geely Company can be explained by the following. It is one of China’s ten largest automobile companies; in 2013 it was recognized the most innovative company in the country. Moreover, now China is one of the most promising Russia’s partners due to the possibility to make transactions in rubles and Yuan among other things.

Before its participation in the business of car production the family produced furniture, alcohol drinks, was engaged in mineral

Figure 1: Structural-logical model of socioeconomic and financial development of NCFO under current conditions

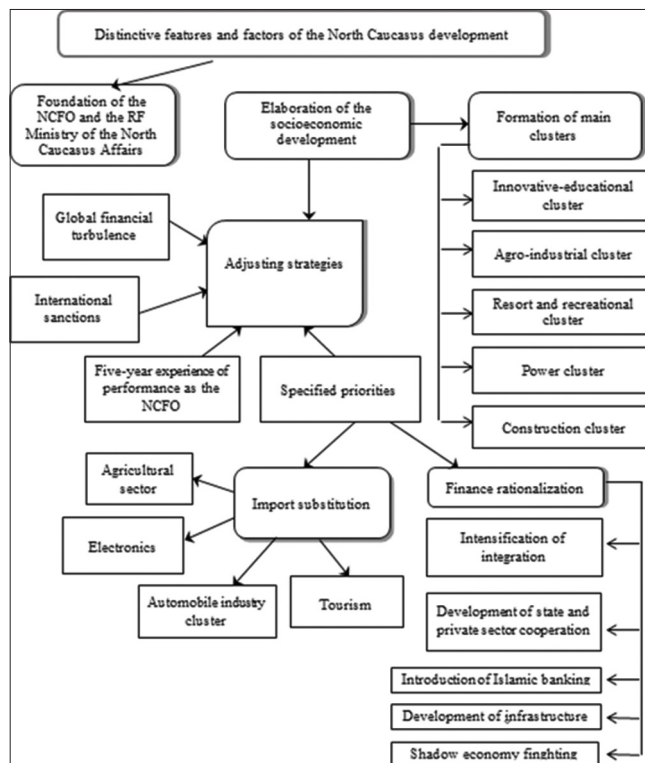
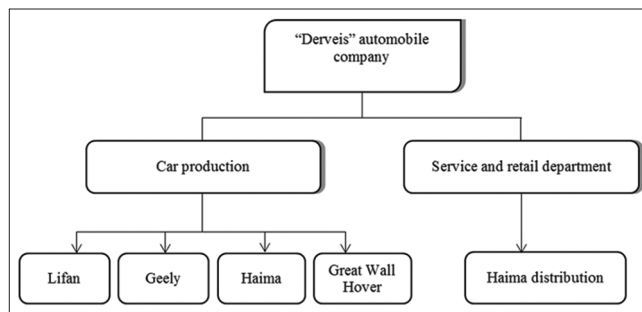


Figure 2: The structure of “Derveis” automobile company



water bottling and tailoring, i.e., worked in the spheres traditional for the North Caucasus. The evolution of the company can be seen as one of the ways to overcome the existing contradictions on the former Soviet Union territory when the North Caucasus being a region possessing unique natural resources and population was viewed as a poor and depressive area. This logical conclusion, which is false to some extent, was made at the time of the strategy development.

Yet, many obvious signs (expensive houses and cars, the amounts of foreign currency, luxury goods, etc. bought in the region) show that there are many rich people in the district. However, this money function mostly in the shadow economy (including alcohol and brick production, mini oil-refining and farm business) (Akinin and Jidkova, 2014; Akinin et al., 2004). “Derveis” is an example of the company that has left shadow economy, entered a large-scale production and started cooperation with reliable foreign partner.

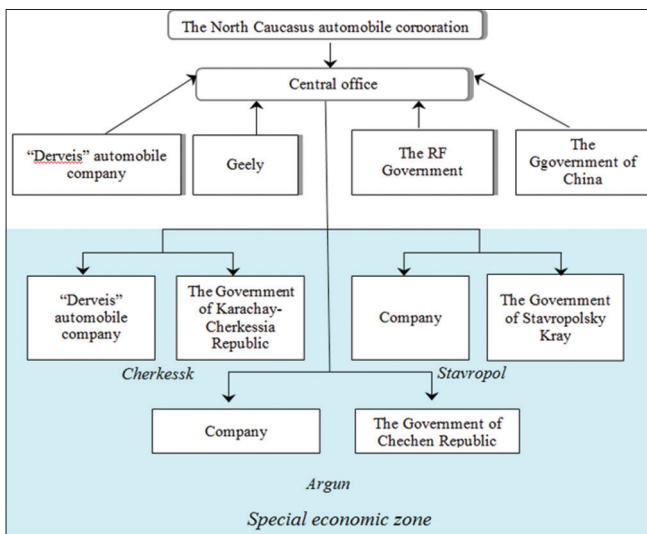
Nowadays this cooperation has a potential to be developed into the North Caucasus automobile corporation that can become a so-called Cherkessk-Stavropol-Argun “axis.” There is an opportunity to create a special economic zone on the territory of three subjects (Karachai-Cherkess Republic, Stavropolsky Kray and Chechen Republic) in Russia with the total output about 300 thousand cars per year (Figure 3).

As regards resort development, let us now return to the existing strategy. It is evident that unstable and insecure territories have little potential. At the same time, the leading clusters of the region are Dombai, Arkhyz (Karachai-Cherkess Republic) as well as Mt. Elbrus area (Kabarda-Balkar Republic).

In the sector of finance rationalization we suggest:

- Further intensification of the integration process
- The development of state and private sector cooperation
- The introduction of Islamic banking

Figure 3: The structure of the North Caucasus automobile corporation



- The infrastructure development
- Intensification of systematic anti-shadow economy efforts.

The abovementioned areas need to be discussed in more details.

The intensification of integration processes means consolidation of efforts and resources for the implementation of the project. In this sphere, first of all, we assume interregional collaboration in implementation of such projects as agricultural processing, solid waste recycling, development of alternative energy and infrastructure (roads and terminals).

It is worth mentioning that the creation of the district resulted in functioning of its subjects within the common economic zone. Another positive effect was the creation of the North Caucasus Federal University - a new growth center of the innovative-educational cluster.

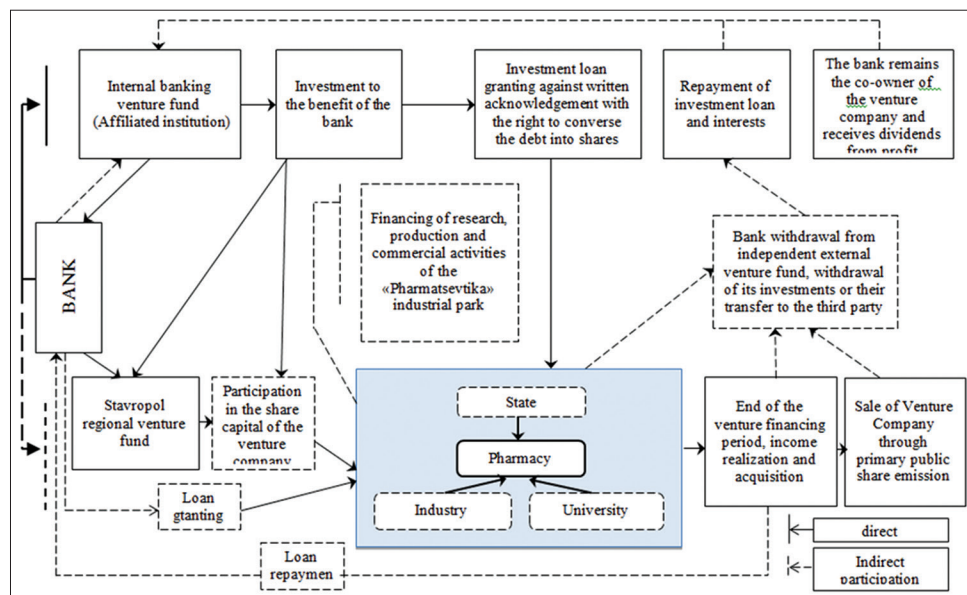
As for the financial capital mobilization, we suggest the development of state and private sector cooperation where innovative vector prevails (Figure 4) (Anikina and Abasov, 2013; Minakov et al., 2015).

Nowadays, when we have to deal with anti-crisis problems again, we should recall Medvedev’s “Four Is” (innovations, investments, infrastructure, and institutes). The money allocated into the spheres mentioned above do not speed up inflation but form the basis for further innovative development.

4. CONCLUSION

In the context of the North Caucasus, one of the most important spheres is the development of new, shorter ways to the Black and Caspian Seas, i.e. the construction of both automobile and rail roads. It should be mentioned, that the straight-line distance from Karachai-Cherkess Republic to Krasnaya Polyana is just 49 km, and to Sukhum (the capital of Abkhazia) is 111 km.

Figure 4: Structural-logical model of bank participation in the venture fund for the financing of the innovative cluster



It is also reasonable to introduce the Islamic banking due to the large proportion of Muslim believers among the population (Akinin and Antoshkueva, 2012). These days on the territory of the former Soviet Union the Islamic banking functions in Kazakhstan, and it is expected to be implemented in Tatarstan as a pilot project. The corresponding Bill on its further development has been introduced to the RF State Duma (The Bill No. 746023-6). The Islamic banking provides for the income received from the final product (implementation of the innovative project) rather than from credits (usury).

Finally, the problem of shadow economy should be discussed. It seems to be the most burning issue for the North Caucasus macro region taking into account the influence of the bordering states - Azerbaijan and Georgia - which have similar situation (The Shadow Economy in the Regions of NCFD: Opportunities and Ways of Transforming it Into a Local). These anti-shadow economy efforts must include joint work of the law enforcement institutions against oil and gas pipeline tie-ins, poaching, sturgeon caviar extraction, and smuggling as well as against concealment of real output and tax avoidance. The latter is mainly typical for agriculture (concealment of cultivated areas, cattle stock and real income).

The political power is essential for the implementation of the strategies described above. It should also be taken into account that payments in cash can be replaced with the exchange trade while the cultivated areas and cattle stock can be easily monitored with global positioning system.

In conclusion, it is necessary to continue with bank resolution, to improve banking systems of risk management and interaction between financial and real economy. The new stage of regional strategy development should also be considered. With the implementation of the new Federal Law "On the Strategic Planning in the Russian Federation" it becomes a landmark of new, higher level of regional management.

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