

Russia and its regions in the new economic reality

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Abstract. In the period of tightening sanctions of the collective West, the issue of developing adaptive solutions against external and internal threats to the national economy for each region of Russia comes to the fore as a strategic regulation of the development of the changing situation, including economic independence, stability and sustainability of the national economy, the ability to self-development. The purpose of the work is to reveal the economic consequences of anti-Russian sanctions. The study uses methods of analyzing the problem of economic security and collecting facts related to the anti-Russian sanctions. The novelty of the study lies in identifying the reasons for imposing sanctions on Russia by the collective West led by the United States and identifying external and internal risks in the socio-economic situation in Russian regions. The authors conclude that Russia faced a significant collective external aggression, unparalleled in modern world and Russian history. In this regard, the development of the Russian economy should change the format of the relationship with the outside world, particularly with unfriendly countries on the internal economic policy. It is important not only to reduce the risks associated with the multiple sanctions' packages adopted by the U.S. and Western countries, but also to restructure the economy by aiming at the growth of investments into import substitution.

Keywords: Russia · Regions · Sanctions · Economic security · Crisis · Risks.

1. Introduction

Over the past six years (2015-2021) of relative stability until February 2022, excluding the COVID-19 pandemic (Filipović, 2022; Romer and Romer, 2022) from the consideration, as one special kind of global crisis, Russia has seen the development of crisis phenomena of both global and national economy, associated with the anti-Russian sanctions of the collective West under the guidance of the United States and England.

Global, national, and regional economic security has been brought to the forefront with multilateral consequences affecting various spheres of human life, society, and economy. Anti-Russian sanctions, in fact, are the catalyst of the global crisis, when the contradictions of the modern economy have come to an extreme point. In this regard, the consideration of Russia and its regions in the new economic reality becomes extremely relevant.

2. Materials and methods

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The methodology of the study is based on the works of Russian and foreign scientists and experts who study the problems of anti-Russian sanctions from theoretical and practical significance of national economic security in the new economic reality (Harald et al., 2022; Asaul et al., 2021; Bochkov, 2016; Russia's place in the global economy ..., 2022; Russia in a new era ..., 2020; Economic security of Russia ..., 2021). The analysis of these works allows drawing an important conclusion that the risks of the 2022 crisis associated with the imposition of international sanctions on a number of domestic companies producing engineering products, fuel and energy complex, coal and timber exports, also with a decrease in demand for Russian raw materials, refusal to transport cargo from Russia across its borders and their insurance, logistical chaos, compression of container transportation, isolation of Russia from the global financial system are significant for business and population of the country (Replaced by their own ..., 2022; Kalinina, 2022; Medvedev: in the West ..., 2022; Kochetov, 2021; Siluanov warned the West ..., 2022; Rohan, 2022; Butschek, 2022). The main factors of external negative impacts affecting the national economy of the country as a constituent element embedded in the world economic and international socio-political system are considered based on the authors' scientific research in the field of regional economics (Asaul et al., 2019; Sevek et al., 2022; Taibyl et al., 2019).

3. Results

The geographical location of the country, the Russian factor in the world economic system and the growing international prestige of Russia are brought to light, so that Russia attracts special attention of all countries and regions of the planet. Russia is among the top ten countries in the extraction of minerals, military-industrial complex, space exploration. And in terms of natural gas production Russia ranks second in the world with 16.3% share after the USA with 21.1%. The branch structure of the Russian economy is characterized by the presence of inter-branch complexes with strengthened production relations and constant integration with other branches. This allows the branch economy to restructure and de-industrialize into industrial and post-industrial types of economy, where the service sector takes 13%, the consumer sector and trade take 21%, finance and real estate – 13%, transport – 10%, construction – 6%, agriculture – 5%, mining – 11%, electric power – 3% in the total branch structure. Sectors of economy are represented in the tripartite diagram of the economy:

- 1) Extractive industry and processing.
- 2) Construction and manufacturing industries.
- 3) Service industry.

The territory of the country is divided into two types of economy:

- 1) Industrial type of production sector (Central Russia, Siberia, the Urals, the Volga region).
- 2) Post-industrial sphere (services), where the main research centers and technology parks are concentrated (Moscow and St. Petersburg).

At the same time, there is a pre-industrial economy in the North of Russia, Tuva and Kalmykia.

If Russia is compared by its share of world GDP (3%), it currently ranks 6th in the world after China – 18%, USA – 15%, India – 7%, Japan – 4% and Germany – 3%. And such indicators as improving the standard of living of citizens, restoring the status of a world state, reaching the level of highly industrialized countries, achieving scientific and technical leadership in the world, the transition from raw materials export development to an innovative type, increasing the level of economic security of the country cause concern of the new and old-world countries, making them impose sanctions or unleash war, as in Ukraine.

The following comparison of the external debt of the countries that introduced several packages of anti-Russian sanctions with Russia (Table 1) is illustrative.

Table 1. List of countries by external debt (List of countries by external debt, 2022).

Country	External debt, mln. USD	External debt per capita, USD	External debt, percent of GDP (nominal value)
USA	30 000 000	91 680	-
European Union	14 259517	11 501	80
Japan	13 504 017	76 879	295
United Kingdom	2681230	119 000	108
Canada	1 613 315	38 209	88
Australia	1 486 360	76 879	151
Russia	324 132	2 250	18

The table shows that Russia's foreign debt in the first column is much smaller than the trillion-dollar debts of the U.S., EU countries, Japan, Great Britain, Canada, and Australia. The authors offer reviewing the share of foreign debt per capita in these countries instead of the total debt. It can be seen from the third column that Russia's debt is several times less than that of the countries that imposed sanctions on Russia. This means that every resident of the country, including a child, owes his or her state of citizenship, whether he or she lives there or not, as many U.S. dollars as are listed in this column. Of course, any country will not demand debt from its citizens for well-known reasons (a social, economic, and political riots will ensue), but the debt has to be covered somehow. The question arises of the source for such cover. It is necessary to nationalize finances, property and other rights that have a monetary value, and at the expense of this reduce the foreign debt. Countries with a high level of foreign debt are also NATO members, except for Japan and Australia (2022 Brussels summit, 2022).

During the open discussion, organized by the Association of Russian Banks, held on April 21, 2022, on "The New Economic Reality: a Regional Slice" topic, Zubarevich N.V., Doctor of Geography, Professor of the Economic and Social Geography of Russia, Faculty of Geography of Lomonosov Moscow State University, highlighted the following risks of the 2022 crisis, associated with the imposition of international sanctions on Russian companies:

- withdrawal of foreign owners (capital) of the automotive, oil industry, energy, trade and other spheres;
- refusal to supply products and components for the machinery manufacturing, the fuel and energy complex, coal and timber exports, etc.;
- forced refusal of Russian raw materials, sanctions ban on foreign carriers and insurance companies to transport and insure cargo;
- logistical chaos and compression of container shipments;
- Russian authorities' restrictions on exports of some forest products, grain;
- increase in inflation;
- reduction of the population income and solvent demand;
- decline in the supply of goods on the consumer market due to changes in logistics and reduced demand;
- emigration/relocation of IT companies;
- risks of hidden unemployment in large cities and semi-depressed regions;
- risks of shadow economy emergence in the sphere of small and medium business and self-employed.

In connection with the above risks, a decrease in the share of industrial production of FEC and metallurgy products in industrial regions (Central Russia, Siberia, the Urals, the Volga region) is possible. For regions where the automotive industry is developed like N. Novgorod, Ulyanovsk, Vladivostok, Tula Regions the consequences have already come due to the departure of foreign investors.

In the regions of transport, energy, and oil engineering (Uralvagonzavod) that have fallen under sanctions, supply problems are growing, or foreign owners have left (Sinara-Transport Machines plant in the Sverdlovsk Region, Power Machines in St. Petersburg, excavators in Tver, cassette bearings in Saratov, drilling equipment in the Tyumen Region, etc.).

Risks of the regions of fuel and energy complex and oil and gas chemistry:

- The Kemerovo coal region will suffer the most because of coal supply restrictions, since its structure is 25% of coal exports, and it is impossible to redirect it to markets in the Asia-Pacific region because of the capacity of the Trans-Siberian Railway.
- Oil and petroleum product exports problems – reduction of production in April by 4-5% (forecast by the Ministry of Energy).
- Because of the sharp decline in exports of oil products there is a growing risk of a partial stoppage of production at oil refineries, especially at Lukoil (Perm Territory, Nizhny Novgorod Region) and oil from the Republic of Tatarstan. The available storage facilities are already full.
- Reduced sales of petrochemical products cause significant financial losses for Sibur's largest facilities in Nizhnekamsk (Republic of Tatarstan), Tobolsk (Tyumen Region) and Gazprom in Salavat (Republic of Bashkiria). It will be difficult for Sibur to complete the construction of gas liquefaction plants in the Yamal-Nenets Autonomous Area (Arctic LNG-2) and in the Amur Region, where thousands of construction workers are employed, because of sanctions on equipment supplies and financing.

Risks in the regions of developed ferrous metallurgy:

- Severstal's steel products (Cherepovets, Vologda Region) are export-oriented to European Union and U.S. markets, so Severstal, Metall-invest (St. Oskol, Belgorod region) will be mostly hit by individual sanctions, with NLMK (Lipetsk) and MMK (Magnitogorsk) being hit to a somewhat lesser extent, but an increase in part-time employment is possible.
- In the regions of the timber and pulp and paper industry, the EU sanctions will result in a reduction of exports, more so in the North-West (Karelia, Arkhangelsk region, and the Komi Republic), which is European market oriented.
- Sanctions to restrict diamond exports by the Almazy Sakha-Rossiya company will lead to a decrease in profit tax to the budget of the Republic of Yakutia and in dividend payments as well as to the growth of underemployment in the single-industry towns of Mirny and Udachny.

Unemployment risks are predicted in the industrial and machine-building regions of the Center, the Volga and the Urals, and, according to the ILO methodology, in large cities and some semi-depressed regions. According to various estimates the decline in real income of the population is considered in the range of 5-10%. Due to the reduction of oil rent and VAT in oil-producing regions, the maneuvering of resources between the federal budget and the consolidated budgets of the regions may be complicated. The main risk for the budgets of more developed regions is the reduction of income taxes. The Far East, the North Caucasus, and the Crimea will be the main priorities for budget support.

4. Discussion

Based on the above risk analysis, the authors can present a list of vulnerable Russian regions grouped into high and excessed risks.

- 1) High level of decline in industrial production and growth of part-time employment will occur in Republic of Tatarstan, Volgograd, Kaliningrad, Kaluga, Kemerovo, Sverdlovsk Regions, Khanty-Mansi Autonomous Area.

2) Decrease of tax revenues of the budget with an increased share of profit tax in Komi Republic, Belgorod, Volgograd, Kemerovo, Lipetsk, Murmansk, Tyumen Regions and Khanty-Mansi Autonomous Area.

3) Dismissal of the employed and growth of unemployment (by the share of those employed in trade, hotels, catering): Voronezh, Ivanovo, Kaliningrad, Rostov, Nizhny Novgorod, and Pskov Regions.

An increased level on the same three indicators will affect the following regions:

1) Republic of Bashkiria, Republic of Sakha (Yakutia), Belgorod, Vladimir, Lipetsk, Leningrad, Nizhny Novgorod, Perm, Sverdlovsk, Chelyabinsk Regions, the city of St. Petersburg.

2) Krasnoyarsk, Perm, Sakhalin, Sverdlovsk, Chelyabinsk Regions, Moscow, St. Petersburg, and Yamalo-Nenets Autonomous District.

3) The Republic of Buryatia, Krasnodar, Stavropol and Primorye Territories, Moscow, Sverdlovsk and Novosibirsk Regions, Moscow and St. Petersburg.

As it can be seen, the sanctions risks will primarily affect the regions with favorable socio-economic indicators, and they will need government support.

5. Conclusion

As possible measures to support the overcoming of sanctions risks, the government of the Russian Federation is implementing the following:

- in the severely affected regions of the Central, Northwestern Federal Districts and part of the Volga Region, pensions are indexed.
- for the depressed regions of the North Caucasus and the south of Siberia, where the share of those employed in the public sector of the economy is high, wages of public sector employees are indexed.
- for Moscow and St. Petersburg, the Kaliningrad Region, the Krasnodar Territory, Tyumen, Novosibirsk and other major regional capitals, the program of preferential mortgage rates is being expanded.
- the program of payroll loans for small businesses is implemented.
- the Federal budget finances public works for temporary employment of laid-off workers from enterprises in industrial regions.
- for regions with a high burden of bank loans those are replaced by budget loans.

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