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#### JUSTIFICATION OF THE PRIORITIES OF REGIONAL DEVELOPMENT IN REAL SECTOR OF ECONOMY

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#### *Abstract*

The article is devoted to the argumentation of the priorities of regional development of the real sector of economy. The authors note that the economic crisis caused by Western sanctions against Russia makes it even more crucial to address the development of the real sector of the economy of the Republic. The existing stable demand for the products of these industries in Russia, high production profitability rates make business in these industries profitable and attractive for entrepreneurs. There is no need for the government of the Chechen Republic to raise billions of dollars of investment for the realization of projects. It is fairly simple to create a favorable investment climate in the Republic. The creation of a favorable investment climate in the Chechen Republic is the most important macroeconomic condition for the formation of an efficient industry in the Republic, the influx of Russian and foreign investments, and the integration of the Chechen industry into global economy. The efforts of the government of the Chechen Republic, the parliament, non-governmental organizations should be aimed at the improvement of all components of the investment climate. It is worth reminding that that the authors of the article talk about the development of labor, financial, industrial, consumer etc. potential of the Chechen Republic. The development of the real sector of the economy, the formation of the sectoral structure of industry, the insurance of uniform economic development of the territory of the Chechen Republic are the most important tasks of the current economic policy.

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**Keywords:** Priorities, real sector of economy, investment profitability, the Chechen Republic.



## 1. Introduction

The relevance of the topic is related to the fact that the analysis of the profitability of production in the sectoral context allows economically justifying the priority for the economy of the Chechen Republic of the most profitable industries, the development of which should be fully supported by government regulation measures, primarily through investment favors. Along with the criterion of profitability of the industry, it is important for the economy of the Chechen Republic to ensure maximum employment of the working-age population with a high wage level.

The third criterion is production safety for humanity and nature. In our opinion, the priority branches of industry in the Chechen Republic are primarily to develop instrument-making, mechanical engineering, the oil and gas and chemical industries, the building materials industry, and the food industry.

According to the federal tax service of the Russian Federation, the profitability of the sectors of the economy of the Russian Federation for 2010-2017 is presented in table 01. It is worth reminding that the profitability of sold goods, products, works and services is the ratio of the value of the balanced financial result (profit minus loss) from sales and the cost of sold goods, products, works and services.

In case when balanced financial result (profit minus loss) from sales is negative - there is a loss ratio. The profitability of capital is calculated as the ratio of the balanced financial result (the sum of profits and losses of enterprises in the industry) to the value of the fixed capital and reserves of organizations (table 01).

**Table 01.** State unitary enterprises of the Republic and payments to the treasury

Branches of economy	2010	2011	2012	2013	2014	2015	2016	2017
Total for the economy of the Russian Federation, including:	11,4	11,5	9,7	7,7	8,6	9,3	8,1	7,5
Agriculture, hunting and forestry	10,3	10,3	11,7	6,3	18,4	21,3	16,8	14,5
Fossil fuels production	33,1	32,1	28,8	24,1	20,7	24,4	23,8	25,9
Food production, including drinks and tobacco	12,2	8,1	11,1	10,1	10,2	10,7	9,6	10,4
Textile and apparel production	5,4	7,1	12,3	7,1	10,3	12,5	11,0	11,0
Leather and footwear manufacture	8,0	7,5	8,1	6,2	5,7	7,3	10,8	10,9
Wood processing	2,5	5,9	5,3	8,1	13,0	12,3	11,6	8,4
Chemical industry	19,8	24,8	22,9	16,7	22,4	33,0	24,5	19,8
Ready-made metal products	6,7	6,4	7,6	8,2	6,3	8,5	9,0	10,7
Machinery and equipment production	7,3	7,0	7,7	7,5	6,8	8,2	7,4	7,8
Manufacture of electrical, electronic and optical equipment	10,1	10,0	8,1	8,9	10,2	11,9	11,6	12,3
Vehicles and equipment production	4,7	7,5	6,0	5,8	5,5	6,1	4,4	8,1
Building	5,7	6,8	6,7	4,8	5,1	5,4	5,5	7,2
Wholesale and retail trade	9,2	10,5	8,2	7,1	7,4	7,1	5,3	3,8
Source: Profitability by the type of economic activity //taxslov.ru								

## **2. Problem Statement**

The profitability of the extraction of fuel and energy minerals in 2010-2017 3.5 was times higher than the average level of profitability in the Russian economy. That is, the profit on each ruble invested in this industry was 3.5 times higher than the industry average profit. Profitability of the industry was traditionally high. The return on capital of the fuel industry in 1987 was 12.8%, in 2003 it increased to 17.5%. The share of profits of the fuel industry in the profits of all sectors of the economy in 1987 was 7.5%, in 2003 it was already 17.5% (the increase of 2.3 times) (Idigova, Khadzhieva, Chazhaev, & Dudaev, 2018).

The profitability of the business in the field of extraction of fuel and energy minerals in 2017 was 1.8 times higher than the profitability of business in the field of agriculture. In this regard, it is necessary to draw the attention of those officials and politicians who are trying to impose on the economy of the Chechen Republic the priority of agrarian specialization: it is not profitable to engage in agriculture in the small-scale and densely populated Chechen Republic.

At least, this industry is traditionally lagging in terms of profitability not only from the extraction of fuel and energy minerals, but also from chemical production and metallurgical production. The profitability of capital in the agriculture of the USSR in 1987 was 19.6%, and in 2003 it was only 3%. The share of industry profits in the profits of all sectors of the economy in 1987 was 6.8%, and by 2003 it had fallen to 1.4%. At the same time, the share of fixed assets of agriculture in 1987 to all production assets of the USSR economy was 20%! It means that huge resources were allocated to the development of the industry, and the return was insignificant. A similar situation in the industry remains until present day: in the ranking of industries represented in the table by profitability of sold goods, products (works, services), in 2013 agricultural sector (together with forestry) was in 13th place among 17 industries.

## **3. Research Questions**

The subject of the research is the criteria and methods for the selection of priorities for the development of the real sector of the economy of the region.

## **4. Purpose of the Study**

The purpose of the study is to develop theoretical foundations and guidelines for improving the methodology for the formation of the state industrial policy of the region and the justification of development priorities.

## **5. Research Methods**

In order to achieve and realize the abovementioned purpose, the authors use logical, historical and comparative methods, as well as statistical methods of data analysis.

## 6. Findings

The predominance of the part of the population of the Chechen Republic living in rural areas over the urban citizens cannot act as a serious argument in favor of agriculture. The agro-industrial complex of the Republic is important for the economy but cannot be considered as leading not only due to low profitability, but also, and more importantly, due to the technical-technological and qualifying lagging of specialists in this industry in comparison with the workers in other industries. Having attached the population of the villages mainly to agriculture, we will preserve the lack of literacy and poverty, which already prevail in the villages of the Chechen Republic (Idigova, Betilgiriev, Taimaskhanov, Mintsae, & Bataev, 2016).

In 2014–17 only a third of enterprises out of the 124 state unitary agricultural producers of the Chechen Republic got regained, the rest had negative profitability, they were unprofitable (Law of the Chechen Republic, 2014).

The authors give similar critical arguments against the economic significance of the textile and apparel industry for the Republic, since the profitability of the industry is below average. The return on equity in the light industry of the Russian Federation in 2003 was minus 5.8%. Of course, it is impossible to prevent the organization of production in this sphere, but we should not consider the enterprises of the industry as capable to effectively solve the problem of subsidized budget dependence of the Chechen Republic.

For the economy of the Chechen Republic, which has at least a substantially developed, but still significant (in respect to population size, domestic demand) resource base of hydrocarbons, it is the most important contemporary task of the development of branches of oil and gas production, the processing of hydrocarbon raw materials, including those acquired from other regions. In the 1980s, the share of oil and gas enterprises in the gross industrial output of the Checheno-Ingush Autonomous Soviet Socialist Republic was about 70%. The total number of employed workers in the oil complex of the Republic was estimated at 29 thousand people (excluding those employed in sectoral science and HR-training). Only in the field of oil refining, the total number of employed in the 80s of the twentieth century was about 20 thousand people. Three oil refineries of the Republic provided more than 6% of the total Russian production of gasoline and aviation kerosene and more than 90% of aviation oils, 100% of jet fuel (Lipina, 2007).

The human resources of the oil and gas complex of the Republic are considerably lost today, but not irrevocably.

In Grozny, the specialists of the oil and gas industry are annually graduated from M.D. Millionschikov Grozny State Petroleum Technical University, Grozny Petroleum College (from 2018 - the Faculty of Secondary Vocational Education of GSPTU). Grozny Oil Research Institute and North Caucasus State Research and Design Institute of Oil Industry are being revived.

If the government of the Republic by state regulation methods purposefully stimulates the enterprises of the oil and gas complex of the Republic, creating favorable conditions for capital inflows to this sector, the arrival of independent oil companies in the Republic (hereinafter - IOC), then the oil and gas complex of the Chechen Republic will finally stop stagnating, continuing from the mid 90s years of the twentieth century, and revived in a short time. Thus, the budget of the Republic will receive large tax

revenues from the highly profitable business. IOCs around the world traditionally work in developed, underdeveloped hydrocarbon deposits and, due to this reason, they are called “subsoil sanitary assistants”.

When solving the problem of attracting IOCs, the experience of the Republic of Tatarstan, which has created favorable economic conditions for the IOCs, is valuable. As a result, most of them from existing in Russia are accumulated in the Republic of Tatarstan (Makhmudova, 2009)

It is the IOCs that are more inclined to apply advanced production and processing technologies, modern methods of enhanced oil recovery (thermal, gas, chemical, microbiological). For this reason, IOCs are more efficient at managing in comparison with vertically integrated oil companies. Moreover, they can finally solve, firstly, the problem of increasing the oil recovery factor from the depths of the Republic, secondly, the problem of extracting hydrocarbons from deep-seated productive complexes of the Cretaceous and Jurassic periods.

The first task was relevant throughout the Soviet period of management. The USSR collapsed with its cost-intensive economy on the approaches to the solution of the second task. The design value of oil recovery in Russia has been steadily decreasing since the 1960s and in 2010 fell to the level of 27-28%, which is one of the lowest levels of the use of oil reserves in the world (Bokserman, & Mishchenko, 2007).

Russian oil refining industry still does not have time to satisfy all the existing demand in the domestic market of the country. According to the InfoTEK-Consult marketing company, the volume of consumption of gasoline in the North Caucasus Federal District in 2013 amounted to 1,234.0 thousand tons, diesel fuel amounted to 370.0 thousand tons (Solex, 2013).

Most of the need for motor fuel in the Chechen Republic is satisfied by imported fuel. It is possible that the construction of mini-refineries that have a short payback period, will allow the budget of the Republic receiving stable tax revenues, and consumers - cheaper fuel than imported.

According to experts, full provision of the Chechen Republic with gasoline is possible if there is a processing volume of up to 1,400 thousand tons per year.

At the same time, the production of diesel fuel will even exceed the demand by 13% (Makhmudova, 2009). Oil refineries can be built with the help of the same small oil companies, IOCs, but only in case when the favorable investment conditions are created for them.

The second industry in terms of profitability after the extraction of fuel and energy minerals is the chemical industry. The profitability of the capital of the chemical and petrochemical industry in the country was in 1987 10.5%, in 2003 - 9.9%. The profitability of sold goods in 2011 was 24.8% (that is, 24.8 kopecks of profit per ruble of expenses), in 2015 - 30.0%, in 2017 - 19.8% (Profitability according to the type of economic activity). The share of industry profits in the profits of all branches of the USSR economy in 1987 was 3.9%, which indicates the high development and demand for chemical plants in the country. In Checheno-Ingush Autonomous Soviet Socialist Republic the Grozny Chemical Plant named after the 50th anniversary of the USSR, Acetone-Butyl Plant successfully were in operation.

The products of primary processing of oil and gas served as raw materials for the “Groznefteorgsintez” Production Association (PO), which produced various types of chemical products: acetylene, phenol, polyethylene, synthetic alcohols, tannins, etc.

The material and technical support of the enterprises of the oil and gas and chemical industries of the republic substantially satisfied the “Red Hammer” plant, “Neftekhimzapchast” Grozny plant,

“Neftegazpromavtomatika” special planning and design office, “Grozneftehimremstroy” enterprise (FECs of the Chechen Republic, 2015).

The Grozny State Institute for the design of enterprises of the oil refining and petrochemical industries was engaged in designing new productions in the country and the Republic. With the collapse of the Soviet economic system, the economic relations of raw materials-production-consumers also collapsed. The industry has stagnated. In 2003, the share of industry profits in the profits of all sectors of the Russian economy decreased to 1.3%. In the Chechen Republic, the chemical industry ceased to exist in the mid-90s.

Under the condition of the revival of the oil and gas industry of the Chechen Republic, additional incentives will arise for the successful development of chemical production. First of all, the available resource base for the formation of chemical plants is the associated petroleum gas that is currently flared from the fields of the Republic, used by Rosneft.

Oil of the Chechen Republic is characterized by a high gas factor - sometimes up to 300 cubic meters per 1 ton of produced oil. At present, the associated gas is separated, after which the resulting dry gas contains an increased amount of by-product fractions and does not meet the standard (Lipina, 2007). Some gas is flared, while in 1985-1990, Grozneft was the leader in the USSR oil and gas industry in terms of the share of associated gas utilization (96.9-98.0%) (FECs of the Chechen Republic, 2015).

According to experts, it is advisable to build a modern gas processing plant with a capacity of 500 million cubic meters with obtaining gas condensate, propane-butane and dry fuel gas, especially on the basis of the existing experience. In the late 80s of the last century in Voznesenskaia site a powerful Grozny gas processing plant was built. It was designed to meet the needs of not only the domestic market, but also the entire North Caucasus region (Mining Encyclopedia, 2019). As a result of wars, the plant was completely destroyed, the documentation was burned.

In addition, about 15 million tons of oil and petroleum products of industrial origin, oil sludge wastes from which bitumen, mastic, soft roofs, bitumen paints and other sought-after products can be considered as a resource base for chemical enterprises of the Republic. Thus, not only the task of developing a highly profitable business will be solved, but also the ecological problem of improving the soil and the depths of the Chechen Republic existing since the Soviet era.

Considering the densely populated Chechen Republic and bearing in mind the sad ecological consequences of the rapid development of the Checheno-Ingush Autonomous Soviet Socialist Republic oil and gas complex, it is necessary to apply a cluster approach (to place enterprises compactly, away from densely populated areas) and to strictly control the observance of advanced environmental safety standards of production. The residents of the Republic should not be rich, but sick. Our purpose: well-being of educated citizens.

From the point of view of opportunities for the training of highly qualified personnel of enterprises, the development of “assembly production” in the field of electrical instrumentation and mechanical engineering is of great importance for the economy of the Chechen Republic. The profitability of capital in engineering and metalworking in 1987 was 13.8%, in 2003 - 8.5%. The profitability of the production of electrical equipment, electronic and optical equipment in 2013 was 8.9%, in 2017 it was 12.3% (Lipina, 2007).

These are good indicators in terms of profitability. What is more important, in the age of information technology, the development of high-tech production in the country will fully correspond to the main development trend of the global industry. The fact that the working conditions at these industries are generally safe for the health of personnel is of great importance.

## 7. Conclusion

The economic crisis caused by Western sanctions against Russia, which led to the collapse of national currency in December 2014, makes it even more crucial to address the development of the real sector of the economy of the Republic, overcoming budget subsidies. The authors consider oil, gas and chemical industries as priority sectors of the economy of the Chechen Republic as well as the production of electronics, other devices and engineering. The existing stable, sometimes scarce, demand for the products of these industries in the Russian Federation and high production profitability rates make business in these industries profitable and attractive for entrepreneurs.

There is no need for the government of the Chechen Republic to raise billions of dollars of investment for the realization of projects. It is fairly simple to create a favorable investment climate in the Republic. Then the capital will come itself and everything will be organized in the best way.

Thus, the development of the real sector of the economy, the formation of the sectoral structure of industry that is optimal in terms of generating income, ensuring uniform economic development of the territory of the Chechen Republic are the most important tasks of the modern economic policy of the government of the Republic. The long-lasting subsidy dependence of the republican budget will not be overcome if a complex of measures aimed at developing industry and increasing the number of profitable enterprises which are able to provide the budget with substantial tax revenues is not successfully implemented.

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