

ISCKMC 2020**International Scientific Congress «KNOWLEDGE, MAN AND CIVILIZATION»****RUSSIA IN CONDITIONS OF FINANCIAL TURBULENCE AND
CUMULATING CHAOS**

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Abstract

The paper characterizes global societal processes, including financial turbulence, spread of the coronavirus pandemic, struggle for leadership across the globe. It addresses hot buttons in the socio-economic development of Russia (GDP index, investments, damage from corruption and lack of management, social problems). The authors present an expert assessment of a modern crisis fallout and the comparison of the threats and opportunities of Russia in countering crises. There are new drivers of the economy – the defense industry, agriculture, and IT-industry, bringing billions of dollars in export revenues. A powerful material and technical base has been established, the financial system has been strengthened, and Russian society has been consolidated. Major challenges are as follows. A fierce struggle for leadership is being unfolded across the globe, in which the United States and the G7 are gradually losing their positions, their dollar-centric model of the economy is collapsing, and globalization is going into oblivion. They are being gradually replaced by China and other Asians with a synthetic model of governance and market mechanisms. Meanwhile, Russia continues to use Western models, as evidenced by the export of capital and a high volatility of the national currency. All in all, despite serious deformations in socio-economic development, Russia has every reason to cope with the crisis and make overdue alignment of its economic model.

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1. Introduction

At present, the planet is undergoing truly tectonic changes: stock indices and stock prices have dropped sharply, oil markets have collapsed. The coronavirus pandemic has halted tourism, air travel, the entertainment industry, and manufacturing. Some researchers describe this situation as cumulating chaos. The authors have a similar point of view.

Nevertheless, even in chaos, cause-and-effect “chains” can be traced. The paper endeavors to identify them both globally and nationwide.

2. Problem Statement

With Russia’s entry into an open economy, its position began to be largely determined by geopolitical processes. Currently, these processes are becoming controversial and sometimes contradictory. Therefore, understanding these intricacies is one of the main national problems.

3. Research Questions

The subject under study is:

1. Analysis of global societal processes (financial turbulence, spread of the coronavirus pandemic and its impact, reformatting of the global matrix, world conflicts). Evaluation of the major socio-economic problems in Russia (GDP rate, investment, poverty, social stratification, corruption).
2. Identification of threats and challenges induced by the cumulating chaos for Russia (a drop in the GDP, incomes, unemployment). Assessment of Russia’s capabilities in countering the current crisis (the national welfare fund, gold and foreign exchange reserves, government debt, the state of society).

4. Purpose of the Study

The paper aims to assess the prospects for the development of Russia based on the analysis of world and domestic trends in socio-economic processes.

5. Research Methods

The study is based on the following methods: economic analysis, comparative analysis, logical moderation, calculation, expert assessments.

6. Findings

Based on a critical analysis of literary sources, the main vectors of modern societal processes determining the face of the globe are: financial turbulence, the coronavirus pandemic, reformatting of the global matrix, exacerbation of armed conflicts and trade wars. An expanded illustration of these processes

is presented in Table 1. Its most crucial point is the fact that the United States and the G7 countries are gradually losing world leadership.

Table 1. Characteristics of global societal civilization processes

No.	Process	Characteristic
1	Financial turbulence	The Moscow Exchange Index has fallen by 20 % since early March 2020, the RTS index has fallen by 34 % since the beginning of the year. The American Dow Jones index has lost 20 %. The rate of exchange is USD 1 to RUR 79, euro 1 to RUR 86. The price for a barrel of oil has fallen to \$ 22, with a budget norm of \$ 42 (Smirnova, 2020). Rosneft and Lukoil share prices have reached their historic lows. The shares of airlines, synthetic fuel producers, and alternative energy have fallen.
2	Spread of the coronavirus (COVID-19) pandemic	Closing the borders of many states. Nowhere has been harder hit than air travel, travel industry, culture and sports. China, Italy and Spain have been particularly hard hit. There was a shutdown of a number of industries. An inference that COVID-19 is man-made has legs. Europe is losing its identity. Many European cities have become Muslim enclaves. In particular, in Austria, the share of migrants is 17.4 %, Switzerland – 29 %, Luxembourg – 45 % (Gulevich, 2020). After leaving the EU, Great Britain will cease to be queen of the seas and become a small island state. Japan is turning into a nation of elderly people surrounded by robots. If by early 2020 the share of the population over 60 years old is 23.2 %, then by 2050 it is expected to be 42.3 %. The external debt of the United States has reached more than 23 trillion. US and G7 leadership is crumbling away. China has taken the first place in the world in terms of the GDP (PPP) – USD 25 279 trillion, globally – 18.67 %. USA – USD 20 580 trillion, 15.2 % in the world. BRICS GDP in PPP is USD 44.1 trillion against USD 40.7 trillion of G7 (RosStat, 2019; Sadovnichy et al., 2014). The center of economic life is moving from the Atlantic to the North-East Pacific coast. Trading platforms in Singapore, Hong Kong, Shanghai, Jakarta are taking the leading positions, displacing New York, London (Boldareva, 2017).
3	Reformatting of the global matrix	
4	Trade wars, exacerbation of armed conflicts	The Nord Stream 2 has been stopped, sanctions have been imposed on Russia, and attempts are being made to bring the situation under control. US duties on goods from the EU and China have been increased. Many peace agreements have been terminated. Military conflicts in Libya, Iraq, Syria, Afghanistan. NATO activity has been revitalized. The outbreak of oil wars.

Today, the dollar-centric system is a pyramid scheme with a US national debt of over USD 26 trillion dollars and quadrillion derivatives. Its collapse threatens world civilization. The attempts to avoid this cataclysm involve the arms race, military conflicts, trade wars, etc. The question remains how far the United States and its satellites can go to maintain their leadership at any cost.

The coronavirus pandemic has further escalated the contradictions in the capitalist world. Insurance medicine collapsed, and the campaigns and principles laid down by the People’s Commissar Semashko showed their high efficiency. The global organizations of the EU, NATO and others did not come to aid their partners and allies. No other than China and sanctioned Russia have offered a helping hand.

In Russia, there are enough challenges even without a crisis fallout (Table 2).

Table 2. Hot buttons in the economy, finance and society in Russia

No.	Challenge	Characteristic
1	2	3
1	Low GDP rates	2014 – 0.7 % 2015 – 3.7 % 2016 – 0.2 % 2017 – 1.5 % 2018 – 2.3 % 2019 – 1.3 % (GlobFinance, 2020)
2	Low rates of investment in fixed assets	2014 – 98.5 % 2015 – 83.9 % 2016 – 99.8 % 2017 – 104.8 % 2018 - 104.8 % 2019 – 101.7 % (RF finanz, 2019)
3	High rouble volatility	Rouble ranks second in the world for this indicator. Above is only the Mexican peso (Feinberg et al., 2020).
4	Insufficient capitalization of commercial banks	The first hundred in the world rating includes the only Russian bank – Sberbank – 63 rd place. VTB is approaching the first hundred – 113 th place. A virtual bank with the total assets of the banking system could occupy only 24 lines.
5	Capital export	According to S. Glazyev, USD 1 trillion was exported from the country over 30 years, according to Bloomberg experts – USD 750 billion, according to MGIMO professor V. Katasonov USD 3 trillion – over the past 10 years (Makeev, 2019).
6	Capital outflow by tourists	USD 34 billion (Vitvitsky, 2020)
7	Damage caused by corruption in public procurement	About RUR 2 trillion (Silko, 2020)
8	Bioresource smuggling damage	Over 80 % of Russian timber is illegally exported to China. Timber and furniture for USD 20 billion has been sold abroad (Interfax, 2013). A similar situation has developed with seafood in the Far East and Murmansk.
9	Cyberattack loss	Russian banks are subject to cyber attacks 1.6 times more often than the world average. According to Group-IB, hackers attack one or two banks on average a month in Russia. The damage is RUR 132 million or USD 2 million. In 2019, losses from cyber attacks were likely to amount to RUR 1.6-1.8 trillion, thereby exceeding the amount of the digitalization project (Volkov, 2018).
10	Food loss	Over 17 million tons of food is thrown away annually, amounting to RUR 1.6 trillion (Inozemtsev, 2020).
	Social challenges:	
	- poverty	20 % of the population have incomes below the subsistence level; 50 % of the population spend money on food, clothing and utilities alone; there is almost no middle class.
11	- income stratification	The ratio of the income of 10 % of the poor to the income of 10 % of the rich is 1:15, and in large cities up to 1:5 and 1:100, against the critical ratio of 1:7. This indicator is aggravated by local asymmetry. Today, 12 million people live in Moscow. In Greater Moscow, the concentration of residents will reach 35 million. The population beyond the Urals is 12 million. The country has more than 12 million migrants from Central Asia, representing a low-skilled labor force. The nation is aging, the total fertility rate is 1.5.
	- migration deformities	

- expensive medicine	Since early 2020, drug prices are projected to rise by 10 %.
- constant avalanche-like increase in utility tariffs	In recent years, utility tariffs have been growing at an outstripping pace, above the inflation rate.
- practical loss of primary health care	In a number of regions, the staffing of doctors in hospitals is about 30 %.
- deteriorated quality of the entire health care	Focus on passing the Unified State Exam, rather than gaining knowledge; high proportion of paid education at universities; ill-considered transition to a two-tier higher education system.
- irrational transport logistics	Over 80 % of air traffic between regions transits through Moscow

Admittedly, the most crucial challenges are high rouble volatility, huge export of capital and corruption. Caused by corruption and deformations in the economy, the country loses annually half of the budget, and in just the years of the existence of the new Russia, several trillions of dollars were exported, which is about ten budgets of Russia.

Colossal poverty of the population (20 %) and social stratification still remain.

The rouble enormous volatility should be expressly indicated (Fig. 1), (Glazyev, 2020), which is several times higher in the context of oil-producing countries.

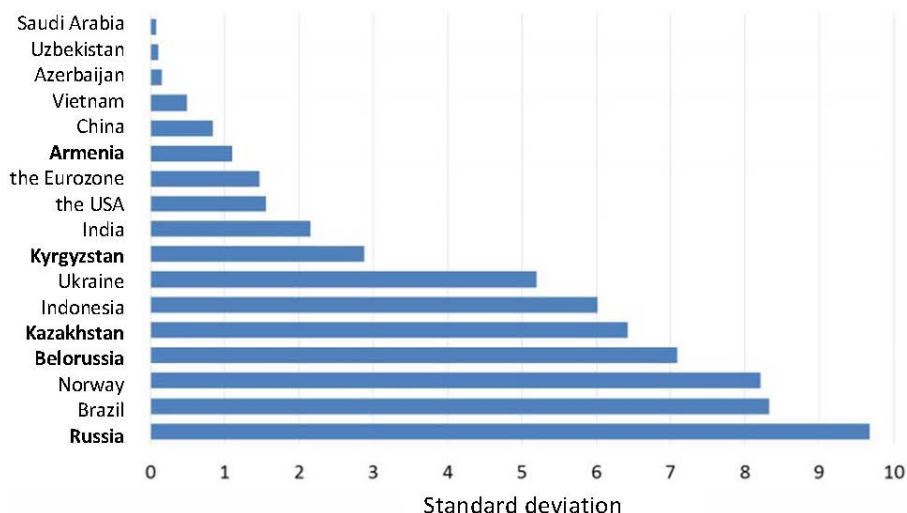


Figure 1. Volatility of exchange rates of national currencies in oil-producing countries in January-March 2020

Note: 1) standard deviation of a daily change in the exchange rate against the U.S. dollar, calculated for the period from 01/01/2020 to 03/25/2020; 2)* for the United States, the U.S. dollar index (DXY) is provided Source: Bloomberg, EEC calculations

Today, these challenges are supplemented with the impact of financial turbulence and cumulating chaos (Table 3).

Table 3. Threats and challenges of modern crucial phenomena of the socio-economic development of Russia

No.	Threats and challenges	Characteristic
1	Drop in the GDP	15-20 % (Dokuchaev, 2020)
2	Rise in unemployment	10-20 % (Dokuchaev, 2020)
3	Loss of budget revenues	2-4 trillion rub. (Feinberg et al., 2020)
4	Loss of oil and gas revenues (at a price of USD 30 per barrel)	RUR 2 trillion

According to experts' forecasts, the GDP is expected to drop by 15–20 %, unemployment will rise by 10–15 %, and budget revenues will go down by RUR 2–4 trillion.

In this regard, the new Russia faced even worse times. During the local crisis, the GDP dropped threefold, the dollar against the ruble rose from 6 to 21. The unemployment rate reached 13.9 %.

Table 4 presents an assessment of Russia's resources and capabilities in countering these threats and challenges.

According to some experts, the National Wealth Fund alone will last for 10 years. Besides this, there are huge gold and foreign exchange reserves – 5th in the world, a relatively small government debt – 14.9 % of the GDP. There are also contributions from colossal natural resources, solid material, technical and financial bases, and, importantly, the consolidation of Russian society.

Table 4. Russia's capabilities and potential in confronting modern crises and cataclysms

No.	Indicator	Characteristic
1	Gold and foreign exchange reserves	As of April 3, 2020, USD 564.6 billion – 5 th place in the world.
2	National Wealth Fund	USD 150 billion, according to some economists will be enough for 10 years.
3	Government debt	RUR 15 734 billion at the end of 2019 or 14.9 % of the GDP. The world average is 80 % of the GDP.
4	Export-generated income from driver industries	Defense industry – USD 10-16 billion. Agriculture – USD 25 billion. IT – USD 10 billion.
5	Creation of a powerful material and technical base	Following the withdrawal of the Baltic States, 4 ports were built in the Leningrad Region, whereas the high-tech industries remaining in Ukraine were recreated. There was a reunification with the Crimea, where the first investment projects are being implemented. A network of car factories has been created, the Northern Sea Route has been opened, the Nord Stream, Turkish Stream and Power of Siberia gas pipelines have been commissioned. The high-speed highway Moscow – St. Petersburg was launched. The Vostochny cosmodrome was constructed.
6	Substantial reinforcement of financial system	The share of budget revenues from hydrocarbons has been reduced from 60 % to 40 %. There have been created: the Deposit Insurance Agency, the Mega-Regulator, the Banking Sector Consolidation Fund, etc. Too-big-to-fail banks have been separated. The number of public ownership banks has been increased. The capitalization of commercial banks has been increased. The size of the authorized capital in banks has been increased. The digitalization of the banking sector is

		being actively pursued.
7	Large reserves of natural resources	Russia accounts for 40 % of the world's mineral reserves
8	Consolidation of Russian society is in place	As a response towards sanctions: Immortal Regiment social movements, volunteers, etc.

In modern conditions, it will be necessary to align the structure of export-import and use of hydrocarbons, to be engaged in domestic tourism, to pay close attention to a new driver – medicine and biology.

7. Conclusion

The study suggests that the major societal processes that determine the modern face of the globe are: financial turbulence, the spread of coronavirus pandemic, reformatting of the global matrix, trade wars, escalation of military conflicts.

China and the BRICS countries were found to be ahead of the United States and the G7 in world leadership, which indicates the collapse of liberal models and globalization and the viability of Asian models synthesizing public administration and market mechanisms.

The Russian economy is still in the wake of Western economic models, as evidenced by the enormous rouble volatility and the export of capital. Almost 20 % poverty of the population and great social stratification still exist.

Nevertheless, the course taken towards investment trends, import substitution, de-dollarization and deoffshorization, growth of the domestic market, reduction of hydrocarbon dependence, implementation of 12 national projects suggests that Russia has every chance of getting rid of liberalism “birthmarks”. The state threats and opportunities indicate good prospects not only for overcoming the culminating chaos, but also for further progressive development.

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