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PROBLEMS OF DEVELOPMENT OF INDUSTRIAL SECTORS OF
ECONOMY IN THE CHECHEN REPUBLIC

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Abstract

The industry of the country is made up of the industry of its individual regions and provinces. Before the collapse of the Soviet Union, the city of Grozny, part of the Chechen-Ingush ASSR, was one of the most famous oil-producing and oil-refining cities in the country. Chechnya was known for oil production and had the factories for manufacturing the equipment for the production, storage and processing of oil, various tools for this industry, and even household appliances, radios, and radio tape recorders. The factories operated until the beginning of the Second Chechen War, during which the plants and factories were totally destroyed and never rebuilt. After the war, the republic was restored, but not a single plant was rebuilt and not a single factory resumed manufacturing. The republic authorities have changed strategic programs towards retail trade, the social sphere protection, tourism, healthcare, and education. The paper describes in detail the state of the Chechen Republic economy in the pre-war period and at present. The paper defines the main problems that impeded the development of the industrial sector in the republic and switched it to other sectors of the economy and presents statistical data that indicate the level of production and industry compared to other regions of Russia.

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1. Introduction

The paramount task of the socio-economic development of each region of the Russian Federation, including the Chechen Republic, is to increase its economic growth, which is characterized by the rational use of available resources in the production of goods or services using technical innovations depending on the region capacity (Tashtamirov & Chekueva, 2016).

Table 1. Distribution of subsidies to equalize the budgetary security of the constituent entities of the Russian Federation for 2022

No.	Constituent entity of the Russian Federation	Amount of subsidies, billion rub
1	Republic of Dagestan	80.18
2	Republic of Sakha (Yakutia)	56.75
3	Kamchatka Territory	44.17
4	Chechen Republic	36.83
5	Altai Territory	32.47
6	Stavropol Territory	26.72
7	Republic of Buryatia	24.04
8	Republic of Crimea	22.73
9	Republic of Tuva	20.48
10	Republic of Bashkortostan	18.89

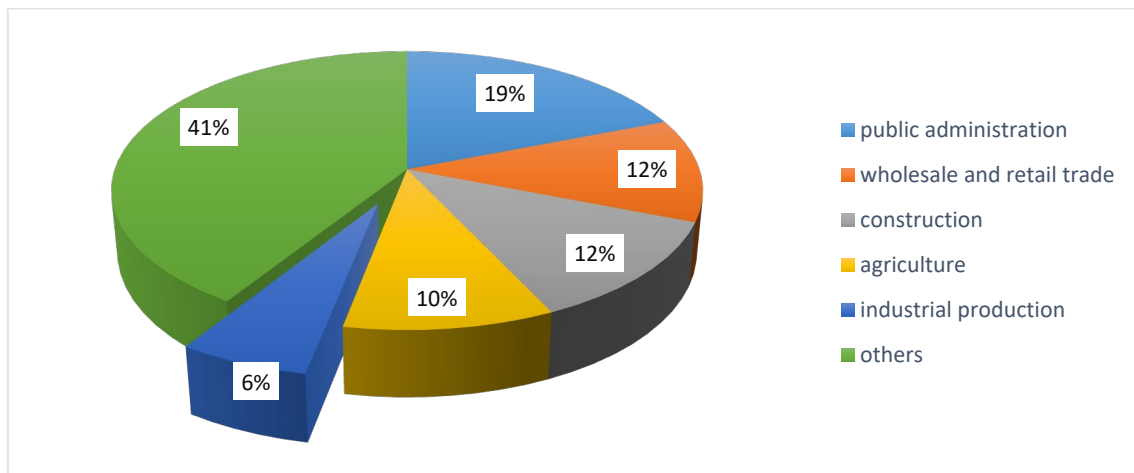


Figure 1. GRP structure of the Chechen Republic

Table 2. Industrial potential of the Chechen Republic compared to other regions of the North Caucasus Federal District

	Mining			Manufacturing industries			Electricity, gas and steam		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Republic of Dagestan	4922	5431	5415	40558	45567	46571	19315	21949	19469
Republic of Ingushetia	1463	1082	1187	1865	2111	2216	1345	1506	1501
Kabardino-Balkarian Republic	398	249	260	27688	30940	34495	8733	9829	8448
Karachay-Cherkess Republic	2751	2821	2798	35194	31150	25908	9061	9401	9792
Republic of North Ossetia-Alania	661	702	700	27588	19376	19573	6697	7125	7025
Chechen Republic	5593	5272	5261	10186	10381	10936	14379	15463	21599
Stavropol Territory	10659	10548	11283	262211	298609	295087	82964	83311	74894

2. Problem Statement

The paper defines the main problems of the Chechen Republic, which impede the development of the industrial sector and reveal the main reasons for their development. The paper describes possible solutions to the problems that have arisen and describes the role of production for individual regions and the country as a whole (Khasanova et al., 2021).

3. Research Questions

The study aims to

- i. identify the problems of industrial sectors of the Chechen Republic economy and reasons for their occurrence;
- ii. propose solutions to the problems faced by the industry and draw conclusions.

4. Purpose of the Study

The purpose of the study is to find solutions to the problems faced by the industrial sector in the Chechen Republic.

5. Research Methods

The authors employed the following research methods: induction, analysis of the results obtained in the study of books and scientific works, highlighting problems, summarizing, generalization of the data obtained.

6. Findings

The paramount task of the socio-economic development of each region in Russia, including the Chechen Republic, is an innovative orientation that contributes to its economic growth, which is characterized by the rational use of available resources in the production of goods or services using technical innovations depending on the region capacity.

An integral part of the mechanism of ensuring stable and progressive economic growth is the quality and level of industrial development, one of the leading sectors of the national economy, the importance of which cannot be overestimated in the conditions of dynamism and uncertainty of the external environment.

A number of scientists, who made a great contribution to the foundations of economic science, consider industry as the locomotive pulling the economy forward. Henri de Saint-Simon, the founder of the school of utopian socialism, in his work *On the Industrial System*, defined industry as ‘the source of state prosperity’ (Sen-Simon, 1923). Adam Smith, Scottish economist, the founder of classical political economy, believed that the wealth of people could be attained through production, that is, ‘the source of wealth is productivity’ (Smith, 1961).

In fact, the industrial sector has a huge impact on the formation of industrial relations, it accelerates the pace of scientific and technological progress, creates new jobs, thereby reducing the unemployment rate and improving the wealth of people.

The Chechen Republic provides the conditions for an increase in the industrial potential of the region: advantageous geo-economic position in terms of transit, good natural resource base, domestic market for manufactured products and labor resources. Despite this fact, the economy of the Chechen Republic is currently characterized by a disproportionate sectoral structure of the industrial complex, insufficient industrialization, lack of generating capacities, which ensure stability and further prosperity of the region.

By the beginning of the XX century, Chechnya had become one of the largest oil production and processing centers in Russia and throughout the world. Over the decade (1956–1965), the region showed a 4-fold increase in oil production and 6-fold increase in gas production. New rich oil deposits were discovered in Chechnya: Karabulak, Achaluka, Zelenchuk, Malgobek, Benoy, Sernovodsk, Ali-Yurt, Goyt-Kort, and others. Over seven years, oil production increased 3.9-fold. In 1965, about 9 million tons of oil were produced, and Checheno-Ingushetia ranked first among the oil producing regions of the North Caucasus. In 1958, the oil industry made a profit of 4 million rubles, and in 1964, it had more than 50 million.

Oil refineries of the city exported their products to more than 30 countries. One of the largest and most famous oil refineries was the Krasny Molot plant built in 1896. First, the Molot workshop was created for the repair and production of simple equipment. Since 1912, the workshop began to expand. It was the only plant in the Soviet Union, where a complex unit for hydraulic fracturing of an oil reservoir was designed and produced. The plant also produced unique equipment for drilling shale oil, washing machines, military tankers, weapons for the military, and reservoirs for measuring oil volumes and its further storage. The plant exported its products to more than 40 countries, including Saudi Arabia and other countries of the Middle East. The plant had its own railways, houses for workers, and nursery schools for their children.

In addition to the Krasny Molot plant, the republic had its own plant for manufacturing radio equipment, which was built in 1959, operated until 1999, and occupied an area of more than 20 hectares. The plant produced radio tape recorders, radio receivers, and TV transmitters, and more than 3 thousand people worked at the plant. Both plants were destroyed during the Second Chechen War in 1999.

Until 1991, the industrial complex of the republic accounted for 2/3 of the GRP, and included 190 chemical, engineering, and oil refineries, which supplied their products to international markets, and factories that were equipped with modern equipment (Abubakarov, 2017). At present, the economic situation in the republic is completely different. During the war, all plants, factories and businesses were destroyed and never restored, and now the Chechen Republic is developing in a different direction.

First, the republic develops due to subsidies allocated by the federal budget, and all subsidized funds are used for development of the social sphere: schools, colleges, universities, nursery schools, and hospitals are being built. Over ten years, more than 500 billion rubles was allocated to the republic from the federal budget. According to the statistics on the distribution of subsidies for 2022, Chechnya is among the five most subsidized regions of the country and ranks fourth after the Republic of Dagestan

and Sakha (Table 01). Besides, over the past three years, the share of subsidies in the regional budget of the Chechen Republic has exceeded 40 %.

The strategic program for the socio-economic development of the republic until 2035 is mainly aimed at working with youth and developing the healthcare system, the education system, the cultural sphere, and social protection measures.

Second, the tourism industry is actively developing in the republic. Although the tourism sector in the Chechen Republic is less developed than in other regions of Russia, it has a huge potential, which is due to many mountainous regions on the territory of the republic, waterfalls, and objects of cultural and historical heritage. In addition, customs and traditions of the Chechens have many features, which also attract tourists.

Third, retail trade is developing in Chechnya. All products are imported from other regions of the country, large manufacturing center, plants; there are no factories in the republic. In recent years, several small factories have been opened in the field of food, light and construction industries, which supply products only within the region.

The Chechen Republic completely abandoned industrial production. This is primarily due to the fact that after the war the republic had no funds and no investors, who could invest in the construction of new factories or in the restoration of old ones. Cities and villages were completely destroyed, and all funds were allocated to the restoration of areas and elimination of the consequences of terrorist attacks.

In the GRP structure of the Chechen Republic, the predominant share falls on the public administration sector (19 % – the share of this sector in the GDP structure of the region is 1.5 fold higher than that for the North Caucasus Federal District), while the share of the industrial sector amounts to only 6 % (Figure 1) (Khasanova & Mezhieva, 2021).

The predominance of the public administration sector is due to the fact that a number of terrorist attacks took place in the republic in the early 2000s, and the security service requires significant funding. Therefore, more than 2,000 soldiers serve in a non-departmental regiment in Chechnya, and the special forces regiment of the Ministry of Internal Affairs of the republic attains 1,800 soldiers. There are other military and security services, police patrol services, OMON, MVD, commandant's guard company, each of which includes 1,000 soldiers (Federation Council, 2021).

All of these services require significant funding from the budget of the republic, since military training, advanced training, and further provision of the military are costly.

It should be noted that the level of industrial development as the main driver of innovative processes largely determines the technological level of other sectors of the national economy.

Compare the industrial potential of the Chechen Republic with respect to other regions of the North Caucasus Federal District based on the volume of shipped local goods by type of activity (Table 02).

Table 01. Indicators of the volume of shipped local goods by type of activity in the territorial context, million rubles (Retrieved from: https://rosstat.gov.ru/enterprise_industrial).

Analysis of the data provided in the table yields the following conclusions:

- a downward trend in production volumes in the mining industry in 2017–2019 is due to the depletion of resources in the main deposits and the lack of measures on preparation and commissioning of new production facilities;
- indicators of the manufacturing industry of the Chechen Republic are significantly inferior relative to those in other regions of the North Caucasus Federal District, which indicates the absence of enterprises focused on processing. The republic does not have sufficient financial resources required for the construction of large processing enterprises.

The current situation in the industrial sector of the Chechen Republic is due to the following constraining factors (problems):

1) lack of funding. The budget of the Chechen Republic is highly subsidized: the share of funds allocated from the federal budget in order to equalize budgetary security and provide financial support accounts for more than 80%:

In accordance with the law of the Czech Republic of December 21, 2020 N 75-RZ On the republican budget for 2021 and for the planning period of 2022 and 2023, in 2021, gratuitous receipts in the total volume of the budget revenues (128,228,835.8 thousand rubles) amounted to 112,411,151.8 thousand rubles, while tax and non-tax revenues attained 15,817,684.0 thousand rubles.

Due to the lack of own funds, regional authorities are unable to finance the construction of industrial enterprises and improve the material and technical base, the development and implementation of which is costly.

2) lack of a sufficient number of qualified personnel, underdeveloped research base, poorly development infrastructure of the scientific and innovative sphere. The priority direction of the state policy is scientific activity and increased scientific potential of the region. At present, there are 6 research organizations and 4 educational institutions of higher professional education in the Chechen Republic. Programs are being actively implemented to attract the population to scientific activities and protection of their interests from unfair competition in this area.

3) low level of the organizational unit of the banking system, which indicates the level of development of the banking infrastructure:

The historical aspect of the banking sector formation in the Chechen Republic largely determined the features of its infrastructure development:

The war that took place on the territory of the Chechen Republic eliminated the financial potential of the region. In 2003, the measures were taken to improve the banking sector, which resulted in the launch of the National Bank of Chechnya in 2011.

At present, the provision of the Chechen Republic with banking services compared to other regions of the Russian Federation is quite low, and there is an urgent need to create second-order banks (local credit institutions) in the Chechen Republic, which will have a significant impact on the socio-economic component of the region. The current structure of the banking sector with no regional banks is due to insufficiently coordinated and considered measures taken by both the National Bank and the Government of the Chechen Republic to increase economic and banking activity in the region (<https://moluch.ru/archive/142/40089>).

A bank loan is one of the main sources of formation of the necessary capital for organizations and enterprises, including those in industrial sectors; therefore, it is important to create a developed system of bank loans. (In terms of the volume of loans issued, the Chechen Republic took the penultimate place among the regions of the North Caucasus Federal District (47,087 million rubles). The Republic of Ingushetia ranked last (11,420 million rubles)).

Analyze the dynamics of the banking infrastructure development in the Chechen Republic through constructing a time series of dynamics (Table 3).

Table 3. Dynamics of changes in the number of operating loan companies (branches, structural subdivisions)

Year	Number of operating loan companies (branches, structural subdivisions)
2011	5
2012	4
2013	6
2014	4
2015	46
2016	46
2017	50
2018	47
2019	47

*Table is compiled based on the data from the report on development of the banking sector and supervision

For clarity, display the data on the graph (Figure 2)

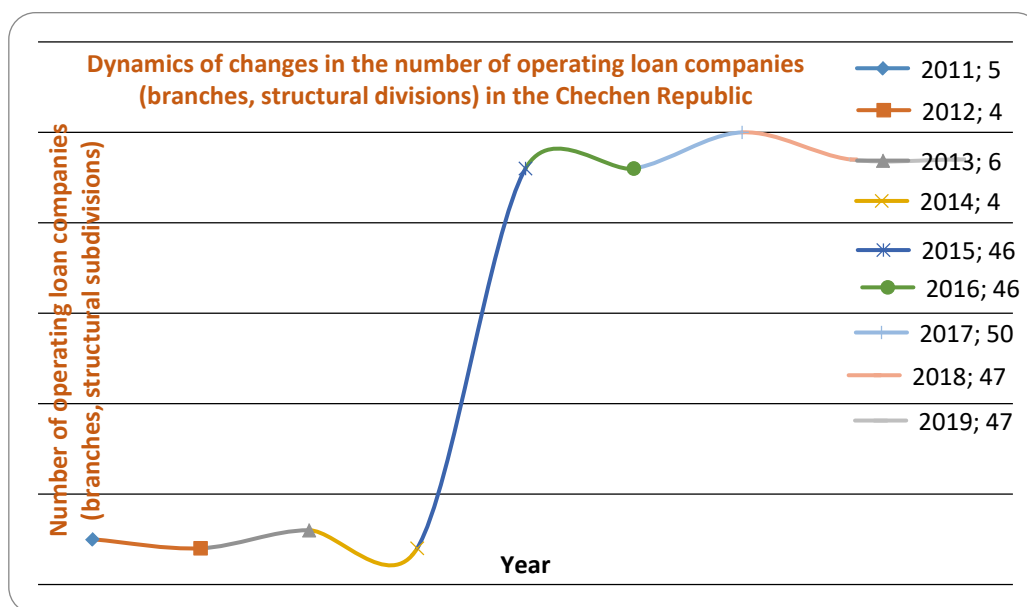


Figure 2. Number of operating loan companies (branches, structural subdivisions)

Analysis of the graph data revealed:

- a rapid growth in the number of loan companies (branches, structural subdivisions) in the Chechen Republic in 2014–2015, which indicates effectiveness of the measures taken by the

National Bank of the Chechen Republic and the Government of the Chechen Republic in order to improve the banking sector;

- a reverse process in 2017–2018, which is associated with the policy of financial recovery of the banking system that implies the withdrawal of licenses from unscrupulous loan companies;
- no significant jumps (declines) in the dynamics of changes in the number of loan companies (branches, structural subdivisions) in the Chechen Republic in 2011–2014 and in 2015–2019.

7. Conclusion

The authors propose the following solution to the above problems: territorial authorities should implement programs to increase the investment attractiveness of the region and create favorable investment conditions. This will mobilize investments in the regional economy, which can be allocated to the real sector of the economy, in particular, for development of the industrial potential of the Chechen Republic.

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