

UDC 339.924(470.6)

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## Ways and methods of economic integration of the North Caucasian regions

*The article deals with the possibility of further full-fledged economic integration of the North Caucasian Federal District subjects into the Russia's economic space and the possibility to include them in the system of interregional and international relations and large strategic projects. The author uses the techniques and researches of the state scientific institution "Council for the Study of Productive Forces under the Ministry of Economic Development and Trade of Russia and Russian Academy of Sciences" and her own methodological groundwork. It is proved that priority development of transport, fuel and energy sectors, creation of industrial clusters, wholesale agricultural markets, scientific and educational centers should be the basis for economic integration of the subjects of the North Caucasian Federal District.*

*North Caucasian Federal District, economic integration, innovative development, production and social infrastructure.*



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It is fundamentally important and urgent to include the North Caucasian Federal District in the system of interregional and international relations and large strategic projects, as well as the development of technology infrastructure in order to integrate the North Caucasian District into the Russia's economic space. The solution of this pressing problem – creation of economic space and economic cooperation of the North Caucasian republics – requires the definition of "growth points", the characteristics of the economic potential, institutional factors and administrative resources for stable and sustained development of the territory, as well as the definition of the republics' place, role and rating.

The basic principles of economic integration can be the following:

- provision of economic (and not just economic) security in the region, because there are threats not only in economics but also against the ethnic group in the region;

- overcoming of the national economic complexes' territorial isolation and creation of the territories with the developed infrastructures and a high level of entrepreneurial activity (agricultural holdings, international transport corridor, product groups, nodal production units) which could link location and development of the productive forces in the region to one schema;

- improving innovation economy of the republics: the formation and development of industrial infrastructure of the economic complex (transport corridors, intermodal terminals, information and computer networks, telecommunication systems, etc.);
- creation of the common civilization, competitive market at the inter-regional level and the global market at the level of international economic relations [6].

Thereby the economic integration of the North Caucasian subjects should be started with the priority development of the key infrastructure sectors such as *transport, fuel and energy complex*, which are the strategic guidelines of the “growth points”, as well as with the development of the potential clusters in the region.

The lack of attention to these key regulating factors of the integration process can cause uneven distribution of the modernization processes in the region and a departure from the construction of a single economic space in the Russian Federation. In this regard, there is a pressing question about each republic’s potential to provide growing volumes of foreign trade and international transit with transport [6].

It is important to define the *main development priorities*, catching trends and benchmarks of the neighboring regions, which determine their future economic image:

- creation of the common civilized regional market which will be competitive not only in the trans-regional exchange, but also in the international economic relations of the world market;
- creation of a support network linking the economic complexes of the Russian Federation into the coherent regional economy (agricultural holdings, international transport corridor, product groups, nodal production units) which represent the large-scale modular structures of its “supporting” framework in the layout of productive forces of the South of Russia and the whole country;

- development of industrial infrastructure of the economic complex (transport corridors, intermodal terminals, information and computer networks, telecommunication systems, etc.) [6].

Priority development of the key infrastructure sectors of fuel and energy complex (*it is a petrochemical cluster on the basis of the scientific and industrial machinery*) requires the government support measures which are specified in the Strategy of socio-economic development of the North Caucasian Federal District for the period till 2025 (it was approved by the order of the RF Government from 06.09.2010 № 1485-p) (hereinafter – the Strategy) [3].

In order to form a petrochemical complex or a cluster in the North Caucasian Federal District it is necessary to go over the survival period to the renewal and development period which is characterized by the complete modernization of the equipment that is ecologically friendly and based on the most modern technologies of deep processing of raw materials, where oil and gas from the Northern Caspian will become a resource base for hydrocarbons commercial production in the Russian sector of the Caspian Sea.

Oil and gas resources are strategically important for the region; they are the base for reconstruction and development of chemical, oil and gas industries determining the economic prospects and efficient development of the Chechen Republic and the most of the North Caucasian republics. Oil and oil products revenues can form the republican budget revenues and attract the investment, which would raise oil and gas production and prevent the national republican economy from disaster. At the same time the construction of the major oil-refining plant by Rosneft will turn the republic into one of the advanced oil and petrochemical centers in Russia, as well as it will help to create a gas and petrochemical cluster with a scientific base in Grozny. Chechnya has a chance to become the leading gas and petrochemical center in Russia.

It is possible to obtain the funds of Russian oil companies, as well as national and international environmental funds to realize this idea. This includes the restructuring of the oil production management system, rehabilitation of petroleum products and liquefied gas selling, reorganization of oil refining, related petrochemical organizations and auxiliary machinery plants. In essence, we should talk about the project of the local industrial and scientific-educational petrochemical complex or the cluster which would unite the whole oil and gas processing complex of the North Caucasus [1, 4].

As the top-priority projects we may recommend to develop a network of small enterprises which would produce and process oil, anthropogenic oil products and oil mud waste products and turn them into asphalt, mastic, soft roof, paint, etc. An ecologically friendly oil and gas processing project for the Northern Caspian can become a starting point to form the oil and gas cluster. This project is based on the new technology; it is implemented by Lukoil and an oil refinery in Chechnya.

Stavropol plants processing refinery's waste into synthetic resins, polymers, organic monomers, olefins, aromatics, and pharmaceuticals would continue to develop the petrochemical sector. Republican newly reconstructed chemical plants would produce lacquer and paints, consumer products, plastics and fiberglass pipes for housing and communal services so the republics would have a special position in the market in the South of Russia.

Scientific innovation support of this cluster, training and retraining of specialists for the needs of the cluster would be based on the existing scientific base (specialists from CJSC "GrozNII", OJSC "Grozneftgaz", prominent scientists of RAS, Institute of Sciences of the Chechen Republic and many others) and oriented to inter-regional cooperation.

The integration potential of the Northern Caucasian national economies needs to solve

not only the most important strategic objectives of the economic security (and not just economic); it needs to join republican administration efforts to form a competitive civilized market within the scope of the regional exchanges.

Therefore, it is important to develop the special economic zone of industrial type within the framework of the industrial clusters in the republics, which is guided by the development of mechanical engineering (car assembly, agricultural equipment, precision instrument engineering) and high-capacity regional market and which is specialized in high-tech production in order to produce competitive products and the development of interregional and international integration. It would help to reduce the highest unemployment rates in the Russian republics.

The experience of other Russian regions in successful development of the integration processes in the North Caucasian republics is limited in application. It requires to be adopted not only to their current economic opportunities and needs, but also to their national and historical features, as well as to their territorial and inter-settlement problems.

However, it is possible if the Northern Caucasian authorities consolidate their efforts and cooperate with the research centers. They need to create favorable economic environment and support for the creation of wholesale markets for agricultural products delivery. The research centers must provide the agribusiness in the region with scientific support, train and retrain the specialists and invest the companies.

The large number of self-sufficient population with historically established labor skills *increases the potential for revival and development of agricultural production* in the North Caucasian region. Favorable climatic conditions and fertile black earth can join together all the efforts to develop the agricultural complex of the North Caucasian republics and Stavropol Krai.

Despite some positive trends which are stipulated by the high-yield farming in the sphere of cash grain production, agricultural

small business in Stavropol Krai faces the same problems as the North Caucasian republics. They are low ratio of commodity output to the total output, underdevelopment of contractual relationships with the processing enterprises, price disparity between the industrial and agricultural products.

Recently, the role of cooperatives is increased in the mixed agricultural economy of Stavropol Krai. Stavropol farmers are quickly organized on a voluntary basis into cooperatives and associations not only for joint cultivation of their land, but also for the processing of agricultural products with a single financial and material balance and a common market infrastructure.

However, cooperative movement in the North Caucasian republics is in the initial stage of the organization. Under these conditions, Stavropol agribusiness can become an “engine” for recovery of their own economy and the economy of the nearby North Caucasian republics. It is possible to join the interests on the basis of partnership agreements by stepping up of the agricultural integration process and by the providing of the balanced organizational, economic and technological activity of the economic systems that integrate production and processing of agricultural products. Currently, a variety of agro-industrial organizations such as agricultural companies, agricultural holdings, scientific-production associations, large corporations are more prevalent in agriculture.

According to the experts, the most promising forms of integration between Stavropol Krai and the Northern Caucasian republics are the sectoral agricultural holdings, where the producers of raw materials are combined around the plants according to their economic interests, keeping their own balance sheet. They act as parent enterprises; they pool production in their hands, as well as product processing and marketing. Also they finance and support primary producers respecting the interests of all structures [1].

The Federal Law of 29.12.2006 № 264-FL “On the Development of Agriculture” defines the strategy of agricultural development for several years [5]. It focuses on the creation of the industrial unions. Stavropol industry is based on the food industry. There is a chain of workshops and mini-factories which produce milk, cheese and sausages. Several enterprises process plant oilseeds. There are also sugar and canning factories. The total power of the food and processing industries allow population not only to cover the requirements but also export products outside the region. The existing demand for raw materials can be supplemented by the deliveries from the nearby North Caucasian republics. The suppliers are the producers of environmentally friendly crops and livestock products of high quality which are safe for consumption. They have the agreements with the governments of the republics about the price level of raw material purchases.

Livestock business is a leading sector of agriculture in the North Caucasian republics and Stavropol Krai. It is oriented not only to meet the food needs of the population, but also to provide the light and food industries with raw materials. Cattle breeding and fine-fleeced sheep breeding are the most important sectors here. High-quality wool and tanning materials are more expensive today than subsidized export wool. The problem of wool and tanning materials distribution is actual not only in Stavropol Krai, but also in the North Caucasian republics. Therefore, sheep breeding has the prospect to become a profitable and competitive sector in the establishment of the republican centers which would purchase raw materials in bulk and supply them to the wool-washing and tanning factories. The sectoral agricultural holding companies can solve several marketing problems and find a rational approach to management. A single agricultural structure will facilitate consolidation of financial and industrial potential; it will reduce production costs and tax burden by reducing of the intermediary links.

It is difficult for the processing plants to ensure regular deliveries of raw materials for processing. Raw materials costs are so high, that's why it is necessary to form a structure of closed-circuit production, which has close-farm linkages in combination with individual autonomy and economic responsibility; that is it's necessary to create such production chains, which will allow us to process local raw materials and ensure storage and sale of the final products.

Thus, Stavropol industry can revive if there is a regional monopoly for purchasing and processing of raw materials. Then it can raise livestock farms in the North Caucasian Federal District.

Improving of the production technology in the dairy and cheese industry in order to increase the quantity and quality of milk (primary processing and purchase incensement) is an acute problem. It is also important to adopt the technology of complex and zero-discharge treatment of agricultural raw materials with the effective use of recoverable resources. Due to the lack of funds the most valuable raw materials such as skim milk, buttermilk, whey, food bones and others are used often as animal feed and the worst products are poured out into the bodies of water.

As a consequence, it is possible to form a large scientific and educational industrial association which is based on the agricultural research potential, as well as it's possible to create the butter and milk agricultural holding and the union of farmers, which would develop the target programs for intensified processing of agricultural production. Indeed, the main problem is not in agricultural production, the difficulty lies in storage and distribution. The agricultural complex effectiveness will increase if they mend fences between the consumption centers. Agricultural holdings can be the most appropriate form of agriculture rebirth if the republican authorities cooperate with the agricultural producers.

"These farms are the unions that represent a cooperative form of multi-sectoral and inter-regional organization of production operating under the control of a single management body"<sup>1</sup>.

Stavropol Krai is one of the major regions of grape growing and winemaking in Russia. There is a large vine complex with the full technological cycle of production, processing and marketing of grapes, wines and liquors here. It is possible to create an agricultural association in future. It would secure all the vineyards for itself and buy raw materials at the farm enterprises and personal subsidiary plots on a contractual basis with the neighboring North Caucasian republics. It will not only improve their material and technical basis, but reduce costs and lead to increase production efficiency.

As the South of Russia is the only region where rice is produced, then the rice producers can join a newly established non-profit partnership "South Rice Alliance" which will create more favorable conditions for them. During the monopolization Stavropol and North Caucasian rice producers will be able to control pricing. Also they will be provided with stable procurement.

The proposed changes in the agricultural sector will not only contribute to the growth of productive forces and transfer of agriculture to innovative high-tech production, but also they create a single market area in the North Caucasian region.

They plan to create the new North Caucasian Federal Okrug and set up the special economic zones (SEZ) in this territory. According to the authors, the main idea of the SEZ in the disputed territories is to create an economic mechanism, where the investors from different ethnic diasporas will work.

<sup>1</sup> Zhilokov A. Large marketability as a factor of effective use of the regional production potential // Regional economy: theory and practice. – 2007. – № 10 (49).

They will link the economic complexes of the republics into the integrated economy by their production infrastructure (transport corridors, intermodal terminals, information and computer networks, telecommunication systems, etc.) and create additional opportunities for economic integration of the subjects.

The other important and positive effects of integration are the joint efforts and the creation of the local management company "Resorts of the North Caucasus". It has the significant benefits for employers who invest the North Caucasian tourist attractions. It is a really good beginning; it can facilitate the integration of the resort and tourism business in the region, support the investment programs and form a single cluster of ski tourism – from the Caspian Sea to the Black Sea, combining the region into a single transport and energy infrastructure. But it should be noted here that the chronic instability in most of the republics causes alarm. That's why a lot of tourism projects seem to be out of touch with reality [2].

It is important to develop the areas that are appropriate for the district. They are the maximum diversification of industry and agriculture, the development of activities that demonstrate the greatest efficiency and enhance competitiveness of national economies and create jobs. Each republic of the North Caucasian Federal District has its own peculiarities and economical structure.

Historically, the economic complex in North Ossetia has a large share of metal production. There are two reoriented plants in Dagestan – "Dagdiesel" and "Dagelektroavtomat". They can produce engines for tanks and tractors, as well as tractors for viticulture.

Investment projects in woodworking and light industry can be realized through private investment. Local non-metallic reserves will provide a good basis for developing of the building material industry. It facilitates the cross-border movement of resources and lead to increased levels of inter-regional integration.

Today, the small business tries to implement itself in all the sectors of economy. Its share in national gross regional product is growing. If they support different forms of entrepreneurship such as credit cooperation, micro-financing, guarantee funds, business incubators, they can stimulate new companies, new forms of interaction. So there will be "free flowing" of resources (information, human, financial, etc.) between the republics.

There is a necessity to develop and realize a system of financial and credit support because of the mixed economy. The author thinks that it will allow us to use small and medium-sized business not only to increase employment and improve the material conditions of the population in the republics, but to create conditions for development of the priority ethnic and economic specializations of the municipalities which are located in the territory of the republics as the tools for cross-border cooperation in the ethno-tourism development.

The North Caucasus is necessary to be fully integrated into the information and the humanitarian space of Russia. As for political integration, we must understand that is not only a political issue for the republics, but social, humanitarian and human question. Integration activity of the republican population may become an important factor in stabilization of the situation in the region.

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