



# TRANSFORMATION OF STATE'S INDUSTRIAL POLICY IN THE CONTEXT OF "LOCALISATION" OF THE WORLD ECONOMY STRUCTURE

*Sava Dimov, Pavel Trifonov, Valery Smirnov, Daniil Kutyrin\**

## Introduction

Since the mid-2000s, the processes of globalization in the world economy have significantly reduced their growth rates. And after 2010, the leading capitalist countries began to shift their foreign economic policies from "free-market" to "protectionism" in the global system of economic relations<sup>1</sup>. The structure of international trade has changed significantly. There has been a transformation of global value chains, as well as approaches to the perception of the performance of system-forming companies<sup>2</sup>, which ultimately changed the architecture of political and socio-economic relations in the world, as well as changed the approaches to the formation of industrial policy of each state actively involved in world trade, whose key industrial enterprises participate in the functioning of global value chains. This circumstance influenced the opinion of leading experts in the field of economics and international trade, who previously held views of the neoliberal

\* Authors: Professor Sava Hristov Dimov, PhD - Head of Accounting and Finance Department in Burgas Free University; Trifonov Pavel Vladimirovich - Associate Professor, Department of Management and Innovation, Higher School of Management, Financial University under the Government of the Russian Federation; Smirnov Valery Valeryevich - Associate Professor, World Finance Department, Financial University under the Government of the Russian Federation and Kutyrin Daniil Andreevich - Expert of LLC "Center for Intellectual Consulting of the Financial University.

sense and post-industrial development, and as a result, supported the course of adaptation of the considered economic systems within the framework of this conceptual course.

## Exhibition

The post-industrial model of economic development has ceased to be a dogma for choosing the course of development of national economies and performing the role of an objectively inevitable stage of world development. In the context of the "new normal", attitudes towards technological progress and its role in socio-economic discourse have changed. The "neo-industrial model" of economic development is gaining an increasing number of supporters among experts, and a number of economists became interested in it after the success of the industrial growth of the Chinese economy and the countries of Southeast Asia<sup>3</sup>. A new pole in the international trade system was formed, which became a transition to a new multipolar world. The reasons for the rejection of the global model of economic development in a number of states are:

The impossibility of preserving the real sovereignty of national States;

The desire of supranational structures, regulators and rules to take control of the national wealth of individual states and the transition to farming in favor of the interests of well-defined transnational elites guided by the values of neoliberalism, and the further loss of sovereignty<sup>4</sup>.

The success of the post-industrial model was possible only for those States that dominated the global value chains created by corporations from developed countries. Characteristic features of using such a model were: industry was withdrawn to

<sup>1</sup> Tolkachev, S.A., Teplyakov, A.Yu. The concept of the cyclic sequence of the spread of basic technologies in the economy and the ontological conditionality of the theories of industrial society // The economic revival of Russia. - 2019. - №4 (62). - pp. 19-36.

<sup>2</sup> Smirnov V.V. Integral strategic efficiency - optimization of the company's activities taking into account the requirements of interested parties // Accounting. Analysis. Audit. - 2020. - Vol. 7. - No. 5. - pp. 15-23.

<sup>3</sup> Sadovnichy V.A., Akaev A.A., Korotaev A.V., Malkov S.Yu. Complex modeling and forecasting of the development of the BRICS countries in the context of world dynamics. Moscow: Publishing House "Nauka"; 2014. - p. 382.

<sup>4</sup> Kobayakov A.S. Reindustrialization and sovereignty The author's report by Andrei Kobayakov to the Izborsky Club on June 1, 2021 // Izborsky Club. - 2021. - №4 (90). - pp. 12-22 - URL: <https://izborsky-club.ru/21237> (Accessed: 01/13/2022).



other regions of the world, a rigid world division of labor, which implies an unequal exchange, which eventually repeated the traditional path of colonial empires, leaving the results with low economic incomes to third world countries. In the end, the societies of countries that lose full-fledged industrial production will turn into a marginal society. Therefore, new industrialization, increasing our competitiveness and technological development are among the best ways to develop the domestic economy.

Leading economists of major international research institutes divide the reasons why "free trading" as an economic policy has ceased to be relevant and the development of globalization processes has stopped, into two groups of factors: economic and political<sup>5</sup>.

Economic factors should include:

- reducing global differences in production costs;
- the complexity and cost of managing global supply chains has increased;
- sanctions pressure and the pandemic period Covid-19 showed that the supply of important goods can be reduced during the crisis;
- producing more products locally allows companies to meet the growing demand for customized products and fast delivery.

Key political factors included the following:

The growing negative reaction to globalization in countries that have not effectively integrated themselves into the international trade system, and their key corporations have served as a raw material link in value chains;

Political elites in a number of countries resisted the country's global participation in the economy by inspiring protest movements and forming negative public opinion towards globalization;

The growth of nationalism and protectionism within States;

Trade conflicts between major powers: between the US and China, between the EU and the UK (Brexit) and global protectionist trends have increased uncertainty about trade policy around the world.

One of the key tasks of the governments of

any country in the world is to ensure the demand for the products of national sectors of the economy in the domestic and foreign markets. Stimulating demand is possible if the products have a sufficient level of competitiveness and the necessary conditions are created for the creation and distribution of products within the economy. The most characteristic feature of the modern world economy is the functioning of global value chains, which combine the efforts of many enterprises to create and distribute products different technological levels for sales markets. An integral feature of the competitiveness of products and successful market activity of an enterprise is its integration into the mechanism of operation of such global value chains. The task of government structures and programs is to create favorable economic and political conditions for the integration of national enterprises into these chains or the formation of similar structures.

At the beginning of the 21<sup>st</sup> century, the global economy is changing the positions of states that have chosen different growth models in favor of those that have chosen the industrial path of development, which ultimately influenced the change in the nature of economic relations towards "glocalization". This phenomenon is accompanied by the strengthening of the role of economically developing countries (primarily the countries of Southeast Asia) and the weakening of the OECD countries with developed economies<sup>6</sup>. Expert opinion on the understanding of the economic role and essence of the phenomenon "glocalization".

They are divided into those who believe that this is a cross between globalization and localization, while others perceive glocalization as an evolutionary stage in the development of the world economy after globalization, which will lead to a stable state of the world economy that went out of balance during globalization. This is possible due to the decentralization of markets and value chains: business models will become increasingly fragmented and transform partially into an online format (for example, work from home and telemedicine). Supply chains will become more resilient, to a greater extent the focus is on local production and a wide range of regional resources.

<sup>5</sup> Clemente-Suarez V.J. et al. The impact of the COVID-19 pandemic on the social sphere, healthcare and the economy // Sustainable development. - 2021. - Vol. 13. - No. 11. - p. 6314.

<sup>6</sup> Lopez-Leon S. et al. More than 50 long-term effects of Covid-19: a systematic review and meta-analysis // Scientific reports. - 2021. - T. 11. - No. 1. - p. 1-3



Another feature of this stage of development will be a reduction in international business mobility and increased interaction between local and supranational institutions, based on stimulating innovation and the development of information and communication technologies. Such an approach would make it possible to respond effectively to cross-border threats, such as pandemics and trade conflicts, by sharing best practices among partner countries, addressing problems through local measures.

China has gained a special role in the global economy due to its successful experience in using tools to stimulate industrial growth. This state is the leader in the world ranking of countries in terms of the share of industrial production in gross value-added GDP, ahead of the United States and Japan. South Korea and India are developing their high-tech industrial sector and are among the top five countries with a developed industrial sector, and have become leaders in the last decade with developed economies. Germany and Italy are striving to maintain their leading positions in this ranking by maintaining parts of the machine-building sector, including enterprises that produce high-tech products for the manufacturing industry,

are located on their territory. Thus, these countries minimized the risks of losing their leadership positions in global value chains. In the same period, there was a reverse trend and a decline in the ranking of industrial enterprises from France, Great Britain and Japan, which did not make effective efforts to position their manufacturing products in international markets.

Russia's position in the rating is getting stronger after 2017, However, the products of the domestic manufacturing industry are significantly inferior to the market positions of representatives from Southeast Asian countries (China, Korea, Indonesia and OECD countries) and are in the places occupied by the BRICS countries (Brazil, Mexico). This growth is explained by the development of enterprises in the sectors that drive the domestic economy: metallurgical production, chemical industry, food industry in the context of increasing economic sanctions and restrictions of the pandemic, and the effect of import substitution programs is also evident. This fact is confirmed by the change in the share of manufacturing products in the structure of gross value added<sup>7</sup> (GVA) GDP of the national economy over the past five years. (See: Table 1)

Table 1  
Ranking of countries by the share of manufacturing products in gross value added of GDP for the period from 1992 to 2020

№	Name of the country	Place in the ranking of countries									
		1992	1995	2000	2005	2010	2015	2017	2018	2019	2020
1	China	N/A	N/A	N/A	4	4	4	6	6	5	4
2	South Korea	16	9	9	12	8	9	8	8	9	8
3	Germany	18	25	23	28	26	22	23	25	27	32
4	Italy	41	42	48	84	80	71	69	64	62	66
5	Russian Federation	N/A	N/A	N/A	78	104	106	108	104	97	84
6	India	59	52	74	71	40	57	65	67	90	85
7	France	62	84	91	125	142	143	150	152	153	141
8	Great Britain	57	78	105	143	152	160	162	159	157	149
9	Japan	198	14	17	22	25	19	22	22	21	N/A
10	USA	N/A	N/A	86	115	118	119	127	128	130	N/A

According to a database of: World Bank database data<sup>8</sup>, 2022

<sup>7</sup> Smirnov V.V. cites: Dimov S.H. Global value chains - a new phase in economic globalization. PROBLEMS AND PROSPECTS OF A NEW PARADIGM IN RUSSIAN INDUSTRY AND WORLD ECONOMY. Libra Scorp Publishing House Bulgaria. 2021. - pp.156-157

<sup>8</sup> World Bank database data. - URL: <https://data.worldbank.org/> (Date of access: 01/13/2022).



The ratio of countries positions in the ranking by the share of the contribution of manufacturing products to the gross value added of the economy's GDP based on prices at purchasing power parity (PPP) repeats the data in Table 1, with the exception of the positions of OECD countries with developed economies and especially the United States, which have rather low values. The weak position of US manufacturing companies in this rating is due to their choice in the second half of the year XX a new model of socio-economic growth based on post-industrial development. It should be noted that the US economy is a vivid example of the service economy with its own development

problems that are relevant for our time. Beginning with XXI However, the consequences of choosing this model did not allow the economies of developed countries (Great Britain, France, USA, etc.) to develop further, and stopped the processes of globalization, including the functioning of global value chains<sup>9</sup>.

It is quite interesting to observe a different picture of the ratios of countries in the rating of a similar indicator, but calculated on the basis of current prices in US dollars (Table 2). In this ranking, the United States and other countries with traditionally leading geopolitical importance have high positions.

Table 2  
Ranking of countries by the share of manufacturing products in gross value added of GDP for the period from 1992 to 2020 based on current prices in US dollars

№	Name of the country	Place in the ranking of countries									
		1992	1995	2000	2005	2010	2015	2017	2018	2019	2020
1	USA	N/A	N/A	1	1	2	2	2	2	2	N/A
2	Japan	N/A	1	2	2	3	3	3	3	3	N/A
3	China	N/A	N/A	N/A	3	1	1	1	1	1	1
4	Germany	1	2	3	4	4	4	4	4	4	2
5	South Korea	5	6	7	8	5	5	5	5	5	3
6	India	N/A	N/A	N/A	13	7	6	6	6	6	4
7	Italy	2	4	5	5	6	8	7	7	7	5
8	France	3	3	6	7	9	9	8	8	8	6
9	Great Britain	4	5	4	6	10	7	9	9	9	7
10	Russian Federation	N/A	N/A	N/A	14	11	13	13	11	12	9

*Built on database: World Bank database data, 2022*

Despite the high positions of the United States and Japan, China has been the undisputed leader of this rating since 2010, which confirms the thesis of "slowing down and stopping the processes of globalization after 2010". By the way, Russia's position has been gradually growing in this rating since 2018. This correlation of forces indicates the choice of priorities in the search for a model of technological and industrial sovereignty of a number of states in the present time.

Problems of the Russian economy remain the low share of gross value added in GDP of

products of high-tech industries, which is determined by the raw material nature of economic development. The share of products exported to international markets in the industry that extracts minerals (mineral products) is more than 50%. (Table 3)

<sup>9</sup> Glazyev S.Yu. Leap into the Future: Russia in the New Technological and World Economic Structures. M.: Book world. 2018. -p.768.



Table 3  
Commodity structure of exports and imports of the Russian Federation in actual prices, %

Product names	2000		2010		2018		2019		2020	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Food products and agricultural raw materials (other than textiles)	21,8	1,6	15,9	2,2	12,5	5,5	12,3	5,9	12,8	8,8
Mineral products	6,3	53,8	2,3	68,5	2,1	64,9	2,1	63,3	1,9	51,3
Chemical industry products, rubber	18	7,2	16,1	6,2	18,3	6,1	19,6	6,4	18,3	7,1
Leather raw materials, furs and products made from them	0,4	0,3	0,5	0,1	0,5	0,1	0,5	0	0,4	0
Wood, pulp and paper products	3,8	4,3	2,6	2,4	1,6	3,1	1,5	3	1,5	3,7
Textiles and footwear	5,9	0,8	6,2	0,2	6,2	0,3	6,2	0,3	6,3	0,4
Metals, precious stones and articles made from them	8,3	21,7	7,3	12,7	7,5	12	7,7	12,5	7,2	19,3
Machinery, equipment and vehicles	31,4	8,8	44,4	5,4	47,2	6,5	46,2	6,6	47,7	7,5
Other products	4,1	1,5	...	...	4,1	1,5	3,9	2	3,9	1,9

According to the database: Russian statistical yearbook<sup>10</sup>, 2021

Recent years of sanctions and the efforts of the Russian Government to create conditions for the transition to a state of self-sufficiency of the national economy have identified key drivers that successfully fulfill the tasks of import substitution. These include the food industry and agriculture (from 1.6% in 2000 to 8.8% in 2020), the metallurgical industry (the average value of the share of products over 20 years is 20%) and the chemical industry (the value of the same indicator is 7%), which are increasing their share in export supplies of products. A problem that hinders the growth of the domestic economy and the level of the main reason for increasing the competitiveness of manufacturing products on the international market is the stagnation of the mechanical engineering sector - from 9 to 7% decreased in the structure of exports. The problems of domestic mechanical

engineering, as a key industry for the development of the manufacturing industry, are reflected in the growth of import supplies over the past 20 years: from 31.4 % in 2000 to 47.7% in 2020. Also, the textile industry, chemical industry and part of the food sector remain import-dependent-this fact is expressed in the form of a negative trade balance (the volume of import supplies exceeds the share of export supplies)<sup>11</sup>.

<sup>10</sup> Russian statistical yearbook. 2021: Stat.sb. / Rosstat. - M., 2021 - p. 692 - URL: <https://rosstat.gov.ru/folder/210/document/12994> (Date of access: 01/13/2022).

<sup>11</sup> Decree of the Government of the Russian Federation dated 17.11.2008 No. 1662-r (ed. dated 28.09.2018) "On the Concept of long-term socio-economic development of the Russian Federation for the period up to 2020" (together with the Concept of long-term socio-economic development of the Russian Federation for the period up to 2020)/SPS Consultant Plus.



The most notable fact remains the structure of the contribution of exporting and importing countries to the volume of operations of foreign trade activities of the Russian Federation. (Table 4)

Table 4  
Rating of partner countries in exports and imports of the Russian Federation

Countries	Specific weight in exports of the Russian Federation					Specific weight in imports of the Russian Federation				
	2000	2010	2018	2019	2020	2000	2010	2018	2019	2020
China	4	5	1	1	1	8	1	1	1	1
Germany	1	3	3	3	3	1	2	2	2	2
USA	7	10	10	10	10	4	4	3	3	3
Belarus	3	7	4	5	5	2	8	4	4	4
Italy	2	2	7	6	8	6	6	5	5	5
France	15	12	14	14	14	7	7	6	7	6
Japan	13	9	9	9	9	14	5	7	6	7
Kazakhstan	14	14	8	7	6	5	13	9	8	8
Turkey	12	6	5	4	4	15	10	11	11	9
Poland	8	8	6	8	7	12	9	10	9	10
Ukraine	5	4	13	13	13	3	3	8	10	11
Netherlands	9	1	2	2	2	11	14	13	13	12
Great Britain	6	13	12	12	12	10	12	12	12	13
Finland	11	11	11	11	11	9	11	14	14	14
Switzerland	10	15	15	15	16	16	15	15	15	15
Uzbekistan	16	17	16	16	15	13	16	16	16	16
Armenia	17	16	18	18	17	18	17	17	17	17
Kyrgyzstan	18	18	17	17	18	19	18	18	18	18
Tadjikistan	19	19	19	19	19	17	19	19	19	19

According to the database: Russian statistical yearbook, 2021

Countries such as China and Germany have long been equal trading partners of Russia in foreign economic cooperation. Partner countries can be divided into several groups based on their characteristic geopolitical positions on the world stage and geographical positioning on the continent common to Russia:

- a. Advanced economies (Germany, USA, Italy, France, Great Britain and Japan, etc.);
- b. Countries that have historical common borders with the Russian Federation and historical ties (China, Turkey, Poland, Finland, etc.);
- c. Countries that are part of the common economic blocs and the CIS (Belarus, Kazakhstan, Uzbekistan, Armenia, etc.).

## Conclusion

As a conclusion, it should be noted that a full-fledged course of transition of domestic industry to reindustrialization, based on the experience of Southeast Asian countries, should include the following areas:

*First*, As part of the policy of import substitution and the transition to a "closed cycle" economy, the revival and restoration of all necessary production facilities that stopped their production activities in the 90s. This primarily applies to machine-building enterprises (machine tools, optics, instrumentation, electronics).

*Second*, Introduction of new enterprises that complement a full-fledged industrial hub, which is an autonomous system of production chains of



enterprises in various industries that are interconnected to create competitive products.

*Third*, Creation of fundamentally new industries and industries, primarily high-tech, meeting the requirements of the latest technological order (nanoelectronics, biotechnologies, information and communication technologies, etc.).

*Fourth*, Develop a system of regulatory and regulatory impacts on the economy by the state and determine the optimal management functionality for "development institutions" of industry that will follow the mainstream of the reindustrialization agenda and determine a moderate form of protectionism of the interests of the national economy.

Separately, we should formulate actual tasks for the development of domestic industry and determine the vectors of the industrial policy of the Russian Federation for the coming years within the framework of the indicated trends:<sup>12</sup>

- Focusing the efforts of all development programs on high-tech sectors of the manufacturing industry (pharmaceuticals, aviation, instrumentation, mechanical engineering and space industry) and reorienting the functionality of domestic economic development institutions in favor of the industrial sector;
- Creating conditions for investment attractiveness of the Russian high-tech sector;
- Development of programs to improve the production systems of enterprises in the high-tech sector.

At present, in the context of the sanctions impact on the Russian economy, a completely new stage of development is beginning for the world and individual state economies involved in world trade. It is characterized by tough regulatory impacts on the economy, reshoring and localization of production capacities, and the creation of regional trade and economic unions. This period should be called the era of "protectionism". For the Russian industry, the main task is to find the optimal model of "import substitution", which in its essence is an existential task of survival and the search for a form of sustainable development.

<sup>11</sup> Abdikeev N.M., Bogachev Yu.S., Bekulova S.R. Institutional mechanisms for ensuring a scientific and technological breakthrough in the Russian economy. *Management Sciences*. - 2019. - V.9. No. 1. - p. 6-19.

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