Vertically Integrated Intersectoral Corporations as a Form of Transition from Deindustrialization to Reindustrialization of the National Market Economy

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Abstract—The article deals with problems of the reindustrialization of the market economy. The author argues the need to change the organizational forms of industrial production, strengthen state support for processing enterprises using natural rent, that arises in extractive industry in order to increase the production of investment in the machine-building and industrial complex.

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Development of the country’s industrial complex in the forecast period. At present, the industrial complex of Russia, from the point of view of research objectives, can be considered to be a set of production and technological chains that begin with the production of the extracting industry and end with final manufactures. At the same time, some enterprises of the industrial complex are included in several production and technological chains, and some enterprises of extracting industries with a large share of exported products are part of the export chains. In addition, many production and technological chains, which do not include final manufacturing enterprises, are incomplete. The deindustrialization of the Russian economy is accompanied by an increase in the extraction and export of raw materials, primarily oil and gas, while revenues from their exports are used to purchase imports of manufacturing products, primarily the final products. As a result, the domestic economy adopted a raw material exports model, in which the optimization of production costs occurs. It is aimed at reducing costs in manufacturing industries, including investment engineering, as well as at reducing spending on health, medicine, science, and education.

The negative results of the functioning of the raw material exports model of the economy are explained by the fact that revenues from exporting raw materials cannot compensate for the financial costs of purchasing the necessary volumes of manufacturing products, primarily investment in machine-building. World prices for the final production of manufacturing industry, as is known, are formed at a high level, which provides a significant amount of profit to its exporters. For industrial countries, which, as a rule, are both exporters and importers of manufacturing products, the high level of prices for these products is not an obstacle to acquiring significant volumes of it. However, for Russia, which does not export significant amounts of manufacturing products, necessary volumes of purchases become inaccessible due to high world prices. The lack of imported products needed to modernize the production apparatus leads either to a lower utilization of production capacities or to their elimination. As a consequence, the quantitative shortage of imported consumer goods, especially technically complex goods, reduces the population’s standard of living.

In the prospective period, the growth in prices for products of extractive industry will continue; hence, the underfinancing of manufacturing enterprises will increase to maintain their competitiveness. Therefore, new bankruptcies and the liquidation of manufacturing enterprises, including investment in machine-building, are inevitable; i.e., the deindustrialization of the economy will continue in the long run. Under these conditions, the industrial complex of the country will substantially reduce, and the demand for imported industrial products will increase. At the same time, exports of oil resources can be reduced due to the depletion of the country’s main deposits.1 At the same time, imports of manufacturing products may be of low quality or not possible at all. Unfavorable conditions for Russian imports of industrial complex products may result from the development of the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership. As part of implement-

1 As a rule, these assessments of authoritative leaders in the oil business appear periodically in the media.
ing these projects led by the United States, sanctions can be applied against our country that restrict the sale of industrial complex products, which may lead to an increase in the socioeconomic tensions that currently exist.

Experience in the reindustrialization of the US economy in the 1980s. For the first time, the term reindustrialization appeared in 1980 in Business Week magazine, which initiated a broad discussion of the problem of the reindustrialization of the American economy first in the media, then in US Congress. The hearings lasted for several months; they were attended by members of Congress, businessmen, scientists, and trade union leaders. A total of more than 200 people presented their position, and the materials of the hearings in Congress amounted to 11 volumes. President Reagan established a special commission that presented a report entitled “Global Competition: The New Reality.” The concept of industrial policy became widespread.

Discussions on possibilities for the reindustrialization of the open market economy in the United States revolved around three basic ideologies, i.e., conservative (M. Friedman, J. Gilder, and others), liberal (R. Boddy, J. Crotty and others), and corporatist (F. Rogatin, L. Sarrow, R. Reich, and others) [1]. As a result of the discussions, the corporatist concept was adopted as the basis for the reindustrialization of the US economy. This allowed for a higher level of cooperation between the government, trade unions, and business, as well as a much higher degree of government influence on private-sector investment decisions. In accordance with this, economic difficulties of the United States were explained by the absence of important changes that occurred in organization of industrial production in other countries. In the period of 1920–1980, organizational principles known as scientific management methods were widely used in the United States. Their application in the industry that produced mass standardized products gave American industry unprecedented economies of scale, but the result was a loss of economic flexibility. During this period, the production of mass goods relocated to regions with the lowest costs, namely, to China and third-world countries. As a result of major shifts in world trade, the basic industries of American industry, which produced mass products, proved to be uncompetitive in the world market. Since the production process can be divided into separate operations and transferred to different parts of the world, entire segments of other industries of American industry have also lost their competitiveness. Automation has accelerated this process. The production of complex equipment quickly moved to low-wage countries. Assembly operations also began to move from developed to developing countries.

In response to the threat of noncompetitiveness, developed countries reoriented their industry to production processes and products that require highly qualified workers. As it turns out, highly skilled labor is the only advantage that these countries possess in a market economy. Production processes that require high qualifications are only possible when there is a highly skilled workforce. Some high-tech products or processes require precise design, sophisticated test equipment, and highly qualified maintenance. Others are designed to meet the specific needs of consumers. Production of the third is associated with constantly changing technology. All three directions represent a relatively high barrier to competition from low-wage countries. Usage of highly skilled labor is not the only common thing to them. All of them require that traditionally separate business functions (design, construction, procurement, production, marketing, and sales) are combined into a highly integrated system that can quickly respond to new opportunities. This in turn presupposes a flexible production system, which is based on identifying and solving problems in new production conditions. At the same time, the production of mass standardized products, which presupposes a customary solution to old problems, has remained mainly in countries with warm climates and cheap labor.

The first highly integrated structures began to form in the 1960s and received the generally accepted name of transnational corporations (TNCs). The power and international influence of these giants began to grow so quickly that, in 1972–1975, at the request of its members, the United Nations created a special permanent UN Center for Transnational Corporations (UNCTNC), which monitors their activities and attempts to regulate them. Only seven corporations functioned in the United States in the 1960s, and their experience of development without using a flexible production system was not very successful. However, in the 1980s, according to the concept of industrial policy approved by the US Congress, more than 100 new corporations were created within 5–7 years. This was a response to the statement of the deindustrialization of the US economy.

The structure of TNCs is usually headed by a network of research institutes, laboratories, and design offices, which are usually located in the home country of the corporation and are reliably protected from possible encroachments and industrial espionage of competitors. Numerous branches are scattered around the world, which always represents only part of the technological chain of the product, which focuses on the raw materials, energy, labor, and economic advantages or markets. The structure of TNCs includes powerful trading companies (sometimes, for tactical reasons, they have an independent balance), advertising agencies, media, and finally banks. As necessary, all financial, intellectual, and advertising power is focused on the breakthrough industry and compensating for losses in some industries by increasing profits in others.