



BUSINESS NEEDS AN OPEN ECONOMY

Dmitry Konov took part in an expert discussion dedicated to Russian foreign economic development at the Gaidar Forum.

The other participants of the discussion were Sergey Sinelnikov-Murylev, Rector of the Russian Foreign Trade Academy of the Ministry of Economic Development of the Russian Federation, Maksim Reshetnikov, Minister of Economic Development, Alexey Mordashov, Chairman of the Board of Directors at Severstal, and Dmitry Konov, Chairman of the Management Board at SIBUR Holding.

MAKSIM RESHETNIKOV

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Starting the discussion, Sergey Sinelnikov-Murylev noted that an open economy is much more competitive than a closed one. When entering foreign markets, Russian exporters compete with international corporations, this makes them more efficient than companies operating only domestically. According to studies, the efficiency of exporting companies is 15% to 30% higher. However, in his opinion, imports are equally important for competition. If there are no imports, or something threatens them, then the efficiency of producers decreases.

Continuing the theme of the discussion, Maksim Reshetnikov said that without the development of exports, Russia will not reach its target of 3% economic growth. According to him, the main growth driver for Russia's economy is the domestic market. But exports must grow, as without them there will be no investments, nor will real disposable incomes grow. This will have to be done under tougher conditions due a growth in protectionism, trade wars between major economies, and the COVID-19 pandemic, which has caused fragility to the value chain. According to the minister, an export focus and import substitution are complementary strategies. Import substitution complements the Russian export-oriented economy, and the creation of a product that is truly competitive on the international market is impossible without imports.

Dmitry Konov, Chairman of the Management Board at SIBUR Holding, is certain that exports are vital for SIBUR. His company has huge potential for growth, but from a domestic consumption perspective “the country is not so big”. Imports play a significant role in the company's projects, especially for new technology-intensive capital projects. Over the past 10 years, SIBUR has invested over RUB 20 billion in new capacity additions in Russia, Konov continued. These are particular investments in certain types of equipment which are imported into the country and without which the construction of modern production facilities would be impossible. The speaker pointed out that at the same time over the past ten years, SIBUR has almost completely replaced imports of polymer products in the domestic

DMITRY KONOV

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There is no discrepancy between an export-oriented development strategy and import-substitution policy – they both test a company’s competitiveness. Konov believes that without experience in different competitive environments, it is impossible to know how to formulate a company’s strategy and what must be improved. In addition, most of Russian exports are raw materials, but SIBUR is actively developing non-commodity exports, and considers it to be one of its main tasks, he explained.

Alexey Mordashov, Chairman of the Board of Directors at Severstal, echoed Dmitry Konov. According to him, Russia’s economy is most closely integrated into the global economy, with approximately 50% of its GDP coming from foreign economic transactions. Nonetheless, if a Russian company wants to be profitable, if it wants to create high-quality and competitive products with low production costs, it must use global best practices. Thus, he noted, to be a successful exporter, a company needs to be a successful importer.

The participants of the discussion also talked about the state’s involvement in the development of foreign economic activity.

Dmitry Konov said that the state and business do not always have the same goals. For example, it’s obvious that the state needs to develop certain segments in the Russian economy covering mechanical engineering and equipment. But the objective of businesses is to launch production of globally competitive products, as quickly and efficiently as possible, with minimal risk. And here we see a conflict due to different time horizons.

ALEXEY MORDASHOV

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Additionally, the speaker explained that the state must support industries which are developing and investing. On the other hand, it cannot ignore those that are lagging behind in some ways: it should create conditions that drive incremental consumption with the aim of developing laggard industries. Konov concluded that the choice of economic impact and the form it takes is a major task between both the state and businesses. This is so that it does not only support development of industries and exports, but also stimulates them, and at the same time creates favourable conditions for foreign trade, and not the other way round.

According to Alexey Mordashov, it is very important that state regulation does not interfere with the market and the competitive environment. Russian companies are interested in the development of domestic mechanical engineering and do not want to remain reliant on imports, but this must all be balanced; fine-tuning is needed to allow domestic production to get up on its feet and start developing, concluded Mordashov.

For the full video recording of the expert discussion (<https://www.youtube.com/watch?v=BzLcKfzcUac>)