
Economic Sovereignty of the Russian Federation under the Current Conditions

E.Yu. Dogadaylo¹, O.I. Chepunov², S.I. Nosov³, O.V. Shmaliy⁴

Corresponding author: *Shmaliy Oksana Vasilievna, South-Russian Institute of Management, Russian Academy of National Economy and State Service under the Presidents Patronage, 70, Pushkin str, Rostov-on-Don, 344002, Russian Federation, email: shok93@yandex.ru*

Abstract:

On the basis of cross-industrial approach, the article investigates the features of economic sovereignty of the government, studying its political, legal and economical aspects. Author definitions of economic sovereignty, government sovereignty are provided, as well as arguments describing its differences from economic independence and economic security.

Article provides characteristics of modern conditions of economic sovereignty that define future ways of development.

Keywords: *sovereignty, national sovereignty, economic sovereignty, economic borders, economic independence, economic security.*

JEL classification codes: *F52, Z19*

¹ *Dogadaylo Ekaterina Yurievna, PhD in Law, Senior Lecturer, Professor of Constitutional Rights, Faculty of Law, Federal State-funded Educational University named after M.M. Speranskiy «Russian Academy of National Economy and State Service under the Presidents Patronage» Moscow, Russian Federation.*

² *Chepunov Oleg Ivanovich, PhD in Law, Professor, Course Coordinator of Constitutional Right, Faculty of Law, Federal State-funded Educational University named after M.M. Speranskiy «Russian Academy of National Economy and State Service under the Presidents Patronage», Moscow, Russian Federation.*

³ *Nosov Sergey Ivanovich, PhD in Law, Professor of Constitutional Rights, Faculty of Law, Federal State-funded Educational University named after M.M. Speranskiy «Russian Academy of National Economy and State Service under the Presidents Patronage», Moscow, Russian Federation.*

⁴ *Shmaliy Oksana Vasilievna, PhD in Law, Professor, Course Administrator of Administrative and Civil Law, South-Russian Institute of Management in Federal State-funded Educational University «Russian Academy of National Economy and State Service under the Presidents Patronage», Rostov-on-Don, Russian Federation.*

Introduction

The understanding of state economic sovereignty and the ways of its provision, play an important role in the modern economic life of the global community and separate countries. The fact that authors address to the institutional and legal analysis of the phenomena of Russian economic sovereignty, is related to the theoretical and practical basis of one of the main political foundations of Russian democracy (one of the dominating vectors of subject activity in the interests of economic prosperity). As opposed to other countries in the world, one of the Russian traditions is government sovereignty, including economic, which defined the historical and legal customs of the Russian government sovereignty for centuries. Undervaluation of the economic sovereignty role in bifurcate economic conditions of the Russian reality have a negative impact on Russia's' competitiveness and economic prosperity. The necessity for provision of economic sovereignty in modern conditions can be felt even more, given the expansion of Russia's economic borders as well as strict sanctions policy imposed against the Russian Federation. Furthermore the conditions of emerging global financial crises also play the role. Problems become more actual, when taking into account the territorial and resource potential Russia operates with. Should we remind that given the 3% of global population it holds, Russia takes up around 10% of the global territory, as well as more than 30% of global natural resources. We can suppose that competition for the global stock of natural resources and increased global attention to such high-potential region of the planet will grow in the future. Under such conditions, government sovereignty, as well as economic is of great importance for the Russian Federation.

Truly sovereign government cannot force itself to be complacent with transnational and national financial capital, as well as follow the dictated rules which do not go in line with national interests. That is the reason for the important role being devoted to the mechanisms of economic sovereignty that are able to establish the optimal legal balance of all subjects of economic relationships in the system of government. Furthermore, as seen from the experience of development of other countries (notably the EU), not every country can ensure economic sovereignty (Pociovalisteanu and Thalassinou, 2008; Thalassinou *et al.*, 2014; Thalassinou and Dafnos, 2015; Pena-Miguel *et al.*, 2017). Current economic sovereignty cannot be considered as a universal mechanism of total control over all the economic decisions and their national connection. The main question is the process of defining these decisions that should be under national control in order to ensure economic sovereignty that supports internal economic prosperity in Russia (economic growth in the modern world).

Authors propose a hypothesis, in accordance to which, the economic sovereignty as a legal category is closely related to the creation of conditions for solving a common problem of economical and government order, expressed in the establishment of an optimal legal economic mechanism, that provides integration and adaptation of Russia into the global economy, on the basis of economic, industrial and innovational interests of all the subjects of economic relationships constructed in constitutional

and legal foundations for national economic development (Denisova *et al.*, 2017; Nikolova *et al.*, 2017; Stroeva *et al.*, 2016; Filatova, 2016; Fetai, 2015; Theriou, 2015; Tcvetkov *et al.*, 2015; Vovchenko and Panasenkov, 2013; Vovchenko *et al.*, 2015).

The aim of the study is the theoretical, legal and constitutional analysis, of the economic sovereignty as an element of government sovereignty, investigation of its features of legal content as well as the features of legal content of the Russian Federation, plus the legal mechanisms needed for its implementation under modern conditions of globalization.

The object of research is considered to be the public relationships that are composed on the basis of legal context and implementation of economic sovereignty, formed in the interests of national economic development under current condition of globalization.

The objects of the study are the legal norms, regulating the relations regarding provision and security of economic sovereignty.

Materials and methods of conducting research

Institutional-legal analysis of the economic sovereignty is carried out on the basis of the synthesis of capabilities of classical and modern methodological paradigms (A. Smith, D. Ricardo, F. List, S. Vitte, D.M. Mendeleev, D. Nort, J.R. Commons, E. Balatskiy and others), economic analysis (in the works of L.I. Abalkina, V.A. Mau, E.G. Yasina, S.A. Batchikova, O.V. Viyugina, S.Y. Glazieva, V.I. Inozemtseva, A.D. Nikipelova), as well as theoretical and methodological basis of modern Law (described by V.D. Zorkin, G.V. Maltsev, V.E. Chirkin).

The research of the essential features of economic sovereignty as a political institution, allows to determine theoretical and methodological basis of legal institutionalization of economic sovereignty under the conditions of modern globalization, specifics and perspectives of legal forms and ways of implementation in the modern Russia, as well as the limits of national economic openness, while preserving the independence of internal economy, marginal innovational preconditions and the conditions needed to form model of national economic originality. Methodological basis of the research is composed of the common principles of scientific knowledge (objectivity, completeness of research, methodological pluralism, and systemic approach), universal scientific methods (deduction, induction, dialectical method, analysis, and synthesis), special legal methods (legal-comparative, formal, method of interpreting the legal norms).

Results

1. Currently the Russian Federation (subject of international economic relationships under the modern conditions of international economic integration; given the continuous Western sanctions) is facing a task of providing sovereignty, most importantly economic sovereignty. The dynamics of development of the modern Russian economy is largely determined by the conditions of Russia's integration into the global economy. The admittance of large-scale capital into the domestic economy is of great significance for the economic development and social stability. However, can the government provide full sovereignty, including the economic sovereignty, under the modern economic conditions? There is a wide-spread opinion that the only countries that possess the economic sovereignty at the moment are the United States and the United Kingdom, that form the centre of global financial and industrial capital of the world, as well as China that is growing at the rate greater than the others.

The legal science contains various opinions regarding the definition of state economic sovereignty. Some of those hold ideological character, and are formed out of the provision of direction for forming a certain model of political and socio-economic regime (as opposed to independent status of the government). Other opinions (approaches) are regarded as legal, but they are not considered economical in the methodological sense. Technically their authors deny any economic elements in the understanding of economic sovereignty. Other concepts highlight various normative approaches to understanding of economic sovereignty. In literature such types of government sovereignty can be found: diplomatic, military, legal, ideological, domestic, external, economic sovereignty. Each type possesses certain characteristics. Economic sovereignty is just one of the elements of a complex social phenomenon - government sovereignty.

Modern problems of Russia, including the economic ones, are the direct result of the USSR government losing its sovereignty in the 90s. Elimination of command-administrative system and the transition on to the market-orientated direction has escalated the crisis in the Russian economy. Industry has experienced a sharp decline, with the structure worsening to the levels, lower than the pre-reform ones. The government took the direction of liberalization and engaged in deeper market reforms, which has resulted in sharp decline of countries economic potential and reduction in the quality of life of the population. Main source of income for Russia came from selling natural resources. Russian economy followed the primary resource-based model.

After the recommendation, proposed by the IMF in 1995, the Federal Law as of 30.12.1995 N225-FL «Regarding the agreement in the sphere of production» has been passed. The Federal Law has taken out a major part of resource-fields from the Russian jurisdiction. Oligarchy, that has started to gain power (financial groups had control over ministries, parties, regions; business structures have substituted political power) has put the country into the situation of deep government, economic and political deformation, with a risk of losing universal and economic sovereignty. The loss of economic sovereignty, usually leads to the loss of political sovereignty. The

reforms have affected virtually all the aspects of everyday life. Radical changes have happened not only at the socio-economic level, the system of values and targets; ideology and global outlook have changed dramatically. Such period of Russia's economic development is best described by the director of the European Institute - N.P. Shmelev: «Today it is very unlikely that any rational person will say that in the foreseeable 15-20 years we will be able to fix the damage that has been caused by this «time of trouble». In the last couple of decades, Russia has lost half of its industrial potential, and if the necessary measures are not taken, the other half will be lost due to amortization in the next 7-10 years. At least a third of agricultural land has been lost, with around 50% of cattle slaughtered. According to the experts, the countries have lost 30% of its «brain». The science, applied science, construction development, system of human resources training are all ruined. At the moment there are still a number of problems that are yet to be resolved. Russia's economy still cannot fully escape from resource dependence.

2. The analysis allows formulating an conclusion that the loss of economic sovereignty means a threat of losing government sovereignty.

Economic sovereignty - is a legal political category that defines the ability to produce a national economic system, and most importantly the progress of production potential in the state and public interests, adapted to the potentially unwanted internal and external processes of globalization. There are main characteristics of economic sovereignty:

- the opportunity of optimal and rational development of the economic system
- high capability to adapt to the conditions of the global economic system.

3. One of the foundations of the economic sovereignty is the fact that a truly sovereign government has to be able to find balance between the interests of foreign and transnational financial-industrial capital and domestic interests, given the primacy of the latter. As a result of integration processes in the global economy, the ability to implement a number of rights in some governments is determined by the rights of other governments and uber-governmental powers of international organizations. Therefore the aim of legal policy in the economic sphere in any government is the security of state economic sovereignty.

Because of this, the acting bodies within the government set a special legal-economic regime that is in fact a system of economic tools and forms. Simultaneously, the competitiveness is strengthened at both domestic and foreign levels. The reliance of internal economic processes (economic growth, investment) on the ability to attract foreign financial resources is preserved, which triggers the necessity to reduce the number of relevant national regulations. Political and legal mechanisms that ensure economic sovereignty within Russia include the system of government institutes of political and legal protection of national economic interests of Russia and subjects of economic relationships that implement their own economic interests in the framework of Russian legislation.

Government policy in the area of legal protection of Russia's economic sovereignty includes various legal measures, such as: legal market regulation; anti-monopolistic regulation; provision of budget funding; credit resources; implementation of special tax regimes for the subjects of economic relations; purchase of production and resources for governmental and municipal needs; purchase and trade interventions, collateral operations; development of the system of risk insurance; assistance with renewal of the main production means and tools and etc., that preserve the independence and sovereignty of institutional and legal economic subjects.

4. Problem analysis of the economic sovereignty (as a legal-political phenomenon), has shown that not all the aspects are sufficiently investigated. Currently, the subject analysis doesn't include the limits of national economic openness while preserving active and independent economic policy (focused on achieving the domestic targets), legal forms of economic sovereignty provision under the conditions of globalization, minimal innovational conditions, necessary for the survival and the formation of the original model of national economic identity.

Discussion

Therefore, as a result of the research, the arguments supporting the hypothesis have been provided. It has been supported, that the legal-political definition of «economic sovereignty» - is still under the discussion, due to the fact that the category of economic independence doesn't have a concrete definition in the modern economic and legal science. The economic sovereignty (as the element of government sovereignty) is understood as public relations in the economic sphere, regarding the ability of government to own, use and redistribute the resources and property (government property), relying on the supremacy of power and the ability to regulate the economic system in the interests of the country.

Economic sovereignty of separate territories (subjects of the Russian Federation) is related to universal economic sovereignty. However, according to R. Nugaev, economic sovereignty of the subjects of the Russian Federation can only be moderate and self-sufficient within the limits of powers. Government sovereignty is seen as a crucial feature of the government; it emerges and disappears along side with the emergence and disappearance of the government. We can agree with the opinion put forward by S.A. Avakian, regarding the fact that «government sovereignty is derived from the national sovereignty and is its logical extension, serving to ensure that internal and external forces do not affect the will of citizens; thereby the government becomes the body, protecting the interests of the people on the international arena». The constitution and the laws of the country set out the principles of government, sovereignty, stability of internal and external relations. The limit of state economic sovereignty is established by the constitutions and the laws in the interests of people, society and the government.

The relations between the economic security of the government and its economic independence are another important question. Large number of aspects regarding the category of independence should be taken into account, which on contrast to sovereignty doesn't relate exclusively to the government. Such term could be regarded as the ability to execute government control over national resources, as well as to use competitive advantages in order to ensure the equality of rights while participating in the international trade. Under the term «economic independence» of a country, the authors understand the economic relations of the government that is characterized by the balance and resistance to negative impact of threats and risks, as well as the ability of the government to provide stable and effective management, given its own economic interests.

Conclusion

A «forward leap» on to the new wave of economic growth can be performed by the countries that have started to develop the industries, important for technological development, where these countries act as «locomotives» in the process of leading the economic recovery. That's why the recovery of the Russian sovereignty should be based on the interconnection of the two strategies:

- catch-up and overtaking growth of the economy. It is necessary to preserve the trajectory of the Russian economic development, as well as to choose a parallel trajectory that will allow Russia to become a global leader in the world's economy;
- follow-up growth - is a more complex process: the combination of scientific research, crediting and funding of promising inventions, venture funding for innovations, as well as crediting of production power. There is a need for a multi-echelon system of government support for innovation and investment activity.

Given this, the focus should also be directed at the industrial concept of economic development (i.e. implementation of large-scale economic projects).

This requires a powerful initiating impulse, effective system of government management that allows concentrating the resources on promising industries that are necessary for the establishment of technological regime. Such process will be accompanied the «intellectualization of production, transition to the continuous innovating process within the major share of industries». Here, it is necessary to have full expertise regarding the potential, volume and the structure of economical resources of the country. After this, it is necessary to establish a long-run, systemic program to create the conditions for follow-up growth. This should be based relying on domestic and international experience (US, China and some of the EU countries) in industrial development, and should focus on the industries, where the Russian S&T (science and technology) complex is highly developed - strategy for leadership and strategy for catching-up.

Regarding the R&D sector, the strategy overtaking the commercialization of fundamental results of applied research seems sensible. In this aspect there needs to be a

narrower sport in order to ensure overtaking growth (absence of mechanism of internal long-term, cheap credit). Given this, the «sources» of long money that are common abroad (pension savings, insurance reserves, deposits), are simply not included into the long-run resource base for the banks. Furthermore the involvement of international reserves is also necessary. This will contribute towards the successful restructuring of the economy and rapid increase in the volume of investment, necessary for the establishment of the new technological regime. While implementing the complex government policy for overtaking growth it is necessary:

- to create a system of mid-term and long-term forecasting in order to plan ahead for the promising destinations for industrial and economic growth;
- to form effective government institutions for economic development;
- to provide the macroeconomic conditions, for the formation of the core of the new technological regime of the Russian economic system;
- to overcome innovational slow-down, and to establish a friendly investment environment, to form mechanisms to stimulate innovation and investment activity;
- to allow for the creation and implementation of projects of industrial and technological complexes of the new technological regime and modernization of the economy as a whole;
- to provide the conditions for improvement of human potential. In order for a transition towards a new economic model occur, necessary changes in the functions, aims and ways of implementation of government economic policy are required.

Furthermore, there is a need for new approaches towards government management that are supported by the global market conjecture and internal socio-economic situation. Therefore, in this respect, it is necessary to pick out optimal mechanism of budget financing for the innovation development of the territories, in order to avoid the specific problems, such as: economic disproportionality of the territories, lack of funding, financial conflict of interests between the various subsystems of the society and dependence of external factors.

References

- Avakian, S.A. 2006. Countdown Point - the Nation, Russian Newspaper.
- Blavatsky, S. 2002. Globalization and Government Sovereignty Dilemma, in Blavatsky, S. Weekly Mirror, 1, p. 2-3.
- Bollecker-Stern, D. 1980. The legal character of emerging norms relating to the New International Economic Order: Legal Aspects of the New International Economic Order / ed. Be, K., Hossain. L., p. 77-112.
- Bordachev, T.V. 2007. Sovereignty and Integration (Electronic Source), in Russia in the Global Economy, 1, <http://www.globalaffairs.ru/numbers>.
- Denisova, P.I., Rukina, N.S., Samoylova, N.K., Takmazyan, S.A. 2017. Financial Instruments of the Socially Responsible Economy. European Research Studies Journal, 20(1), 284-293.
- Economic Sovereignty: Problems and Challenges. 2017. <http://rusrand.ru/docconf/ekonomicheskij-suverenitet-problemy-i-vyzovy>.

- Fetai, B. 2015. Financial Integration and Financial Development: Does Financial Integration Matter? *European Research Studies Journal*, 18(2), 97-106.
- Filatova, G.N. 2016. Effective State Ownership Administration in the Context of the Privatization Process in Russia. *European Research Studies Journal*, 19(4), 166-183.
- Glaziev, S.Y. 2015. The Support of the Financial System Sovereignty of the Country - basic condition of Restoration of Russian Economy Management (electronic resource) http://www.glazev.ru/econom_polit/462/.
- Grachev, V.S., Serov, K.N. 2007. Legal Means of Economic Sovereignty Provision in the Modern Government: History of the Government and Right, 8, ConsultantPlus.
- Granin, L.E. 2005. Globalization and National Sovereignty: History and Modernity, 1, 6-12.
- Khabibulin, A.G., Chernobel, G.T. 2008. Government Interests and its Security Function. *Journal of the Russian Right*, 5, ConsultantPlus.
- Moiseev, A.A. 2006. Government Sovereignty in the Modern World. *International Legal Aspects*, Book of Science, p. 246.
- Peña-Miguel, N., Corral-Lage, J., De La Peña Esteban, I.J. 2017. A First Approach to a Public Financial Information System for Social Benefits. *European Research Studies Journal*, 20(2), 109-127.
- Pociovalisteanu, M.D., Thalassinou, I.E. 2008. The beginning and some national particularities of liberalism. *Metalurgia International*, 13(2), Special Issue, 172-177.
- Presentation at the Munich Conference in the Areas of Politics and Security. 2007. <http://www.kremlin.ru> (12.01.2017);
- Shevtsov, V.S., Movchan, A.P. 1979. Government Sovereignty: Theoretical Questions. *Science*, p. 300.
- Stroeveva, O.A., Mironenko, V.N., Lyapina R.I. and Petrukhina, V.E. 2016. Peculiarities of Formation of Socially Oriented Strategy of Economic Growth of National Economy. *European Research Studies Journal*, 19(2), 161-170.
- Tcvetkov M., Tcvetkova I. and Chkalova O. 2015. Transaction Costs under Globalization: The Example of Russian Economy. *European Research Studies Journal*, 18(2), 107-116.
- Thalassinou, I.E., Liapis, K. and Thalassinou, E.J. 2014. The role of the rating companies in the recent financial crisis in the Balkan and black sea area. Chapter book in *Economic Crisis in Europe and the Balkans*, 79-115, Contributions to Economics, Springer International Publishing, DOI: 10.1007/978-3-319-00494-5-6.
- Thalassinou, I.E. and Dafnos, G. 2015. EMU and the process of European integration: Southern Europe's economic challenges and the need for revisiting EMU's institutional framework. Chapter book in *Societies in Transition: Economic, Political and Security Transformations in Contemporary Europe*, 15-37, Springer International Publishing, DOI: 10.1007/978-3-319-13814-5_2.
- Theriou, G.N. 2015. Strategic Management Process and the Importance of Structured Formality, Financial and Non-Financial Information. *European Research Studies Journal*, 18(2), 3-28.
- Vovchenko, G.N., Panasenkova, T. 2013. Trends of Formation the Russia's Innovation Potential. *World Applied Sciences Journal*, 27(10), 1362-1366.
- Vovchenko, G.N., Efremenko, I., Panasenkova, T. 2015. Paradigm of the common economics space formation in the context of globalization. *Mediterranean Journal of Social Sciences*, 6(36), 155-162.