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Laura Solanko: Policy of national champions and Russian competitiveness

Russian industrial policy has been steered towards emphasising the role of large state-owned companies, so-called national champions, in the development of various areas of production. New government-owned companies or conglomerates have been founded or are being planned in many sectors. Such national champions have been envisaged, in addition to the energy and natural resources industry, in automotive, aviation, shipbuilding, pharmaceuticals and even fishery.

Holdings of the Russian state and state-owned companies in the energy sector have grown significantly in recent years. In addition, the state controls the use of many other natural resources more closely than before. This has naturally sparked discussion both in Russia and abroad. However, the energy sector is a special area, which is owned by the state in almost all of the world's commodity-dependent countries. This may be justified due to the strategic importance of energy resources and particularly large investment needs. In contrast, extension of the role of the state to other natural resources and other fields of industrial production in particular give rise to concern among most economists.

Difficult challenges facing national champions

The publicly expressed objective of the support for national champions is to create new and improved facilities for the rise of domestic industry. The basic idea sounds similar to the industrialisation policies of the 1960s, but the structure of economies was different back then. Individual economies were closed, and the transmission of new research findings and ideas was very slow in comparison with the situation today. Therefore it is hard to believe that a similar policy would have same results today in any part of the world.

The creation of national champions has been justified by claiming that it by responding to global competition it will improve the nation's success in the global economy. This aim also provokes significant doubts. The general consensus is that new market entrants that succeed in international competition are typically highly specialised on a specific area. Recent research has shown that new multinational companies based in emerging countries are basing their success on two factors. First, their internationalisation is not based on the utilisation of the resource base in their control (eg natural resources) but rather on an urge to seek further growth outside the home country when competition over resources and consumers is intense in the domestic markets. Second, these so-called second-wave multinationals do not often create technological innovations; rather their success is based on strategic and organisational innovations. Many multinational companies from emerging economies are fast, agile and not (at least yet) captives of a hierarchy of country organisations and headquarters. It is difficult to envisage how a large government-owned Russian company entangled in all the complexities of the domestic industry would meet this challenge of flexibility.

These days there is a strong tendency to highlight the efficiency of private ownership in comparison to state ownership. Although empirical evidence is not quite flawless, it is widely accepted that in manufacturing (eg manufacture of machinery) the productivity of private companies is higher than that of state-owned companies. This means that the same resources yield higher quantity or quality, or in the best case, both. For this reason, too, the establishment of large state-owned companies to improve competitiveness and efficiency appears unusual in the least.

The scenarios provided by the Russian Ministry for Economic Development indicate that future growth would ideally be based on innovation. The warfare industry and nanotechnology are often mentioned as special spearheads. Creation of a national innovation system also seems to depend on the state owner. Innovations are intended to be produced mainly with state funds also in the future. There is a risk that the innovation funds directed at state companies are used inefficiently and neglecting applied research. In many competitor countries, the majority of research and product development is carried out in private companies with the companies' own money, while state input is mainly focused on the education system.

There is a risk that companies' own R&D operations are not appreciated nor supported. In many areas, Russian companies can still benefit from catching-up for a long time, meaning that they can apply technologies already used elsewhere and improve their productivity this way. It does not make sense to reinvent the wheel. But direct copying seldom leads to good results. Even catchers-up must have a reasonable degree of proprietary development operations so that inventions functioning elsewhere may be adapted fit the local markets.

Free competition or protectionism?

The build-up of state-owned national champions cannot at least increase competition in the domestic Russian market. The contrary is more likely. Even a state-owned company is not going to compete against itself. Furthermore, the emergence of national success stories certainly undermines the opportunities for new companies, both domestic and foreign, to enter the markets. A reasonable degree of competition has often been found to improve efficiency in general and the creation of innovations in particular. Government subsidies and restriction of competition have sometimes been defended with so-called infant-industry arguments. It is argued that public authorities have the right and obligation to protect a domestic industrial sector from foreign competition that has been deemed excessive, so that the domestic industry could grow more competitive in peace. Although this thought may sound fine, unfortunately it rarely works in practice. Many empirical studies have found that growth and innovation among companies in protected industries is particularly modest.

Diversification of the structure of the Russian economy and improvement of international competitiveness are important goals. But the creation of national champions hardly helps achieve them. The strategy of national champions easily leads to increased protectionism, reduced competition and significant internal fight over the control of state-owned companies.

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