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## MECHANISM FOR RESTORING THE AGROINDUSTRIAL COMPLEX IN CHECHNIA AS A FACTOR OF POLITICAL STABILIZATION IN THE REGION

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hechnia is going through a difficult period in its centuries-long history. Apart from military events (1994-1996 and 1999-...), the republic has experienced fundamental socioeconomic transformations. Their main content is a transition from the administrative-command system to a market economy. Just as throughout the entire post-Soviet space, this process involves natural crisis phenomena.

## **Transformations**

The reform of the agroindustrial complex (AIC), which started in the Chechen Republic (CR) as in the whole of Russia toward the end of the 1990s, did not take the path of lifting administrative pressure in the localities, expanding the economic independence of collective and state farms and other enterprises in this sector, promoting efficient use of available resources or increasing the return on these resources. Instead of gradual steps to create an economic mechanism that would help to get rid of excessively centralized functions and of administrative-type methods preventing an advance to economic independence and enterprise in the localities, the selected reform option was designed to break up the state agroindustrial system.

Under the slogan of "restructuring," the Chechen "democrats" set out to destroy the established way of life in the countryside, to denationalize state property and redistribute land. Large agricultural enter-

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prises in the steppe districts of the republic (Naurskiy, Shelkovskoi, Nadterechniy and Groznenskiy) were broken up, and in land-starved mountainous areas arable land was distributed on a per capita basis. Agricultural servicing and processing enterprises were privatized throughout the republic in breach of the law and often without any legal basis at all. The republic's economy assumed the ugly forms of "wild capitalism." The reforms led to drastic changes in the sectoral structure of gross agricultural output, land use and employment, to the emergence of private commercial farms and production cooperatives, and to the development of personal subsidiary (part-time) farming.

But all these transformations failed to lay the groundwork for enhancing the efficiency of the agrarian sector. At governmental level, the republic's authorities relinquished control of that sector, stopped supporting agricultural production and liberalized prices, all of which plunged the sector into a crisis. Just as the whole of Russia, the republic was in danger of losing its food self-sufficiency. That raised the question of the need to develop a special concept for a transitional system of relations that would be designed, on the one hand, to restore the agrarian economy and, on the other hand, to create a mechanism ensuring a gradual advance toward a modern model of civilized economic management and the principles of market production.

At the same time, the economic transformations of the 1990s cannot be assessed in unequivocal terms. The objective need for reform was dictated by the fact that for many decades agriculture had been costbased, extensive, riddled with shortages and scarcities, and destructive for the environment. Such indicators as labor productivity and output per unit area and per unit of input remained low, and the gap in this sphere compared with other developed countries continued to widen. Moreover, the situation was aggravated by the outbreak of military action in the republic.

## **Restoration Mechanism**

The systemic crisis in agroindustrial production was primarily due to a hasty choice of priorities in carrying out reforms and to a sharp decline in government regulation and support for the AIC as the market economy was taking shape. That is why in the development of a mechanism for restoring and stabilizing agricultural production in the republic it would make sense to analyze the causes behind the negative phenomena at macro and meso levels explaining the overall situation in the economy. These include the following factors: incomplete land reform; a mechanism for disposal, possession and use of land not reflected in real practice (which significantly reduces investment attractiveness and incentives to work; a mechanism for government economic regulation that is not fully operative; liberalization of foreign economic activity entailing an increase in food imports; a disparity between the prices of agricultural and other products; and failure of the existing AIC structure and infrastructure to meet the requirements of the market economy.

The mechanism for restoring agroindustrial production is one of the central problems in the efforts to reanimate this sector. "Mechanism" is usually interpreted as a system, a device for regulating some kind of activity. That is why "restoration mechanism" here is taken to mean a system (economic, legal, organizational) ensuring the solution of problems arising in the republic's AIC. But if the conflicts continue, there is no point in talking about sustainable development in the foreseeable future.

Chechnia's losses during the period of sanctions and the two latest wars are without parallel in its entire history. Politicians are always able to find money for waging wars, but money for peaceful construction (in the interests of the state) is often lacking. "Those who impose their system of dubious values by means of bombs and missiles must realize that mankind is in need of renouncing force in international relations, because otherwise the world will become bipolar."

<sup>&</sup>lt;sup>1</sup> A.N. Tkachenko, "Integratsia—predposylka stabilnosti ekonomiki" (speech at the St. Petersburg Economic Forum in July 1999), *Ekonomist*, No. 9, 1999, p. 10.

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In the context of the given problem, the concept of "AIC restoration mechanism" is not encountered in Russian economic literature. Moreover, the problem itself has not arisen in Russian reality for more than 50 years (since the completion of the postwar rehabilitation work of 1945-1950). Today this is a major economic and policy problem, and its successful development and solution can do a great deal not only in the matter of regenerating the agroindustrial complex, but also in stabilizing political and ethnic relations in the South of Russia. Considering the specific features of AIC development in the North Caucasian republics, this question must also be studied at regional level, which will make it possible to work out theoretical and methodological approaches to the formation of an economic mechanism for restoring and stabilizing agroindustrial production in Chechnia.

The basis for restoring the republic's AIC can be provided by a set of measures aimed to consolidate the positive trends in its development, to ensure its stabilization and improve the financial status of agricultural enterprises.

## Unemployment and AIC

In the development of a mechanism for restoring and stabilizing the agroindustrial sector of the economy, special note should be taken of the unemployment factor. In the view of many economists, the sociopolitical explosion in the republic in the early 1990s occurred as the result of high unemployment, whose rate was much higher than in other regions of the former U.S.S.R. The worst affected were the rural areas, in many of which over 50% of the able-bodied population was out of work.

As the Chechen economy and social sphere disintegrated, unemployment continued to grow, especially among the young, which contributed to the development of a criminal situation in the republic. At present, over 150 thousand young people have no jobs. A solution to this problem will in large part make it possible to overcome the main obstacle to a peaceful life.

Table 1

#### Structure of Unemployment among Young People under 30 Years of Age for 1993-1994 (thousand persons)

Stopped being drafted for active military service in Russia	25.0
Stopped leaving the republic in search of jobs	75.0
Stopped studying at technical schools and institutions of higher education	10.0
Reduced training at vocational schools per annum	15.0
Discharged on grounds of staff reduction	30.0
Total	155.0
S o u r c e: R. Aziev, S. Abuev, "Vremia sobirat' kamni," Ve respubliki, No. 2, 22 December, 2002.	estnik

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An excess of human resources and a shortage of arable land are specific features not only of Chechnia, but also of other North Caucasian republics. At the same time, they are among the factors that caused a conflict situation in the region and reduced the republic to its current state. Thus, its socioeconomic potential has been destroyed; the Chechen society has stratified along tribal and religious lines; there is no system for protecting civil rights and liberties; the irreconcilable opposition is prepared to go its own way to the end; and criminal elements have been exploiting political and ideological differences to achieve their own purposes.

The key to political and socioeconomic stabilization in the region lies in the restoration and development of the AIC, which could stimulate a recovery in many other branches of the economy, promote domestic food production, and help to counteract crisis phenomena in the market and other negative factors.

As noted above, the current criminal situation in the republic is primarily connected with the problem of employment. In the view of V. Akaev, "the job shortage in Chechnia, especially in rural areas, starting from Soviet times up to the present, is the root of many of the ills and problems that have plagued the Chechens. A successful solution to the problem of creating jobs and conditions for normal work will become one of the main stabilizing factors in Chechnia." Under Soviet power, "we used to go to Russia in search of jobs, and today Chechnia has become something of a Klondike for the military and for government officials."<sup>2</sup>

So, the transition of the agroindustrial complex in Chechnia to market relations started in very complicated and contradictory conditions. On the one hand, the AIC is based on the successes achieved in Soviet times, on the main indicators of the prereform period, and on the other, its development is held back by the consequences of two Russian-Chechen wars, i.e., the collapse of agroindustrial production, the critical state of agrarian science, the degradation of material and technical facilities in the sector, and the poor financial position of agricultural producers and the republic as a whole.

As a result of military action, the problems of unemployment have been supplemented with the need to settle forced migrants, to restore destroyed social, cultural and production facilities, and to bring back and train specialists in various branches of production, the service sector, science and culture.

#### **Investment Policy**

Investment in the rehabilitation of branches of the economy, including agribusiness, that used to operate efficiently before the outbreak of hostilities, is a priority line in the sphere of investment. In this context, an interesting program has been prepared by the Chechen Union of Industrialists and Entrepreneurs under which more than 15 thousand large, medium and small enterprises with 300 thousand new jobs are to be created in the republic over the next five years.<sup>3</sup>

In the view of M. Basnukaev, "attention should also be paid to such a source of food production as mountain lands."<sup>4</sup> He notes: "The question of tapping the mountain potential is connected with the need to stimulate the development and regeneration of mountain villages and farmsteads. The current massive destruction of the urban economy in Chechnia could result in a revival of its mountainous areas. But this requires a target program that would stimulate not only housing development, but also the creation of various agricultural enterprises."<sup>5</sup>

Rehabilitation of the economy and the social sphere in the Chechen Republic is one of the main challenges facing the Russian leadership. Within the framework of the investment program, the republic was allocated 12 billion rubles under an RF Government Decree of 12 January, 2002. Chechnia has also been given an opportunity to use extrabudgetary sources of finance and to carry on activities in attracting

<sup>&</sup>lt;sup>2</sup> V.Kh. Akaev, "Zapadnia," Impuls, No. 1, 2001.

<sup>&</sup>lt;sup>3</sup> See: "Investitsii i vosstanovlenie," *Ob'edinionnaia gazeta*, No. 2, 2002.

<sup>&</sup>lt;sup>4</sup> M.Sh. Basnukaev, "Problemy politiko-ekonomicheskogo razvitia Chechni v postsovetski period," *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 12, 2001, p. 91.

<sup>&</sup>lt;sup>5</sup> Ibid., p. 92.

nongovernmental (including foreign) investment guaranteed by the governments of the Russian Federation and the Chechen Republic. The program for rehabilitating the republic's economy, including its agroindustrial production, also provides for mixed state-private funding with tight control over the spending of budget allocations, determines the goals, tasks and basic provisions of state investment policy, and lays down a mechanism for its implementation. This is expected to minimize the possible risks, including the risks of potential investors.

## Legal Aspect of Restoration

A legal framework for restoring the republic's AIC is provided by RF Government Decree No. 889 of 21 December, 2001, "On the Federal Target Program for the Rehabilitation of the Economy and the Social Sphere of the Chechen Republic (2002 and Subsequent Years)." According to that document, the main purpose of the projected measures is to help provide the republic's population with locally produced staple foods. Thus, in the years ahead it is planned to use 360 thousand hectares of land for growing grain crops, sugar beet, grape vines, fruits and vegetables, and coarse and succulent fodder; cattle stock is to increase to 100 thousand head, and sheep stock to 200 thousand head. This will make it possible to increase grain output to 300-350 thousand tons per year and fully meet the population's demand for grain, to satisfy 50% of the demand for fruits and vegetables. It is planned to rebuild a number of agricultural processing enterprises and to regenerate poultry farming, the most profitable branch of the AIC. The processing of sugar beet is to go up to 200 thou tons, raw sugar to 100 thou tons, fruits and vegetables to 100 thou tons, grapes to 100 thou tons, the production of poultry meat to 19 thou tons, and eggs to 120 million per year.

In addition, there are plans to restore industrial and repair facilities in the agroindustrial complex, including construction industry facilities. In order to ensure efficient use of arable land, the crumbling land improvement complex is to be put back into operation. For training agricultural specialists, it is planned to reopen the Sernovodsk Agricultural School, the Agribusiness Management School and the Shali Training Center.

Another legal document on the restoration of the AIC is the Chechen Government's Decree No. 5 of 27 March, 2002, "On the Concept for the Development of the Agroindustrial Complex of the Chechen Republic for 2002-2005." Under that decree, the republic's leadership requests the government of Russia:

- to restructure the debts of agricultural commodity producers owed to the Federal budget and to state funds for 1994-2002;
- to allocate financial resources for repayment of overdue debt owed by the republic's agricultural commodity producers to suppliers of produce for 1994-2002;
- to make a proposal to the RF Ministry of Finance on allowing the republic's AIC enterprises an investment tax credit for the amount of taxes due to be paid into the Federal budget. In 2002, taxes collected into the budget in the Chechen Republic amounted to 3,750 million rubles.

Under that decree, the CR Ministry of Agriculture and Food and the CR Government Committee on Viticulture and the Alcohol Industry were requested to organize work in accordance with the AIC Development Concept for 2002-2005, and the Committee on Land Resources and Land Management for the Chechen Republic, to complete the land inventory in the republic by 1 January, 2003.

The documents being adopted not only provide a legal basis for AIC rehabilitation, but also serve as a factor stabilizing agroindustrial production in the republic. On that basis, it is necessary to resolve the problems of economic and organizational resources and reserves of the AIC within the legal framework of the region, making use of appropriate documents of the RF Federal Assembly, materials of the RF Ministry of Agriculture, state statistical data, and other official documents of Russia. At the same time, the republic is in need of new regulatory documents of the RF government that would make it possible to

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adopt urgent measures of government support by restoring agricultural engineering, eliminating price discrimination against AIC industries, restructuring AIC debts, financing the social sphere in the countryside, and organizing insurance and credits at a reasonable price. In other words, we need government regulation, administration and control.

For the time being, as noted above, the republic's agriculture, food and processing industries are in a state of grave crisis (see Table 2).

#### Table 2

Product	1986-1990	1995-1999	Decrease (times)
Grain	420	110.8	3.8
Sunflower	11.8	0.9	13.1
Sugar beet	152	11.5	13.2
Grapes	63.2	10.6	6.0
Fruits	33.3	1.3	25.6
Vegetables	131.4	2.7	48.7
Potatoes	21.9	—	—
Meat of all kinds	45.5	0.5	91.0
Milk	115.2	1.5	76.8
Eggs (pieces)	98	6.1	16.1
<i>S o u r c e:</i> State Statistics Committee of the Chechen-Ingush Autonomous Soviet Socialist Republic, 1991; current records of the CR Ministry of Agriculture, 2000.			

#### Annual Agricultural Output Per Capita (kg)

According to the AIC development forecast for the period until 2005 (based on the aforesaid Concept approved by the republic's government), per capita production is to amount to 343.3 kg of grain, 11 kg of sunflower, 10 kg of sugar, 50 eggs, 22.6 kg of canned fruits and vegetables, and 5.3 kg of vegetable oil. This is 3-10 times above the average figures for 1995-1999.

#### Lines of Development

Achievement of the results projected by the above-mentioned forecast<sup>6</sup> is possible (and is expected) with the support of the respective Federal authorities, and also with due regard for the actual economic and sociopolitical conditions in the republic. And the purpose of the agrarian policy reflected in the Concept is to determine the main lines of development and to foster efficient and sustained agroindustrial production that would meet national standards, ensure the republic's food security, fill the market with food affordable for all groups of the population, and provide industry with raw materials.

At the same time, it must be emphasized that Chechnia's weak industrial base, excess labor resources and other negative factors will prevent the republic from becoming self-sufficient in food in the near

<sup>&</sup>lt;sup>6</sup> See: Kh.E. Taimaskhanov, Sostoianie i perspektiva APK Chechenskoi Respubliki, Moscow, 2001, p. 88.

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future. In view of that, the forecast provides for the restoration of a number of enterprises in the food and processing industry which use raw and other materials brought in from outside the republic. With this aim in view, it is necessary to strengthen integration ties and mutually beneficial cooperation with neighboring republics: Daghestan, North Ossetia, Kabardino-Balkaria and Ingushetia, and also with the Stavropol Territory. The main areas of such ties include the food industry, fruit and vegetable growing, sugar beet production, corn and alfalfa seed breeding, processing of grapes, wild-growing berries, fruits and medicinal herbs, and joint participation in investment projects.

In summary, the priority tasks of further development of agroindustrial production include, first, accelerated rehabilitation of AIC facilities in order to fill the market with low-priced food; second, creation of economic and organizational conditions for profitable operation of this sector; and third, improvement of social conditions in the countryside.