

# Some Aspects of the Russian Market Balanced Growth in External Market Relations

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**Abstract**—The rationale of this article is determined by the current difficulties in the Russian Federation’s foreign policy within the scope of global economics and the demand for fundamental changes in the external market relations. The subject of this article is the principles applied to the external market relations. The purpose of the current study is to substantiate the need to conduct global economic activities based on the principles that, being implemented, would support the balanced market growth in this area. So, multipolarity of global economics must imply using the currency of not just many countries but of all countries participating in the global economic activities, for the purposes of settlements in external market relations. The article relates on such scientific research principles as integrated analysis and synthesis, deduction and induction, integrated sequence and some other methods. As a result, the article offers a conclusion stating that, in order to provide the balanced growth for the Russian market, it is essential to maintain the balanced currency balance and the balanced account balance (balance of payments); besides, the national currency exchange rate must be defined not by accidental “market forces” but by an agreement between partnering countries concluded for a certain period of time.

**Keywords:** *currency, monetary assets, currency exchange rate, exchange balance, account balance (of payments), national interests, Russian school of economic thought*

## I. INTRODUCTION

National safety is ensured through multiple institutions and factors. The primary importance, of course, is attributed to those that prevent external war threats. Institutions that ensure military national safety are the Ministry for Defense and a range of other well-known specific authorities. Within the conditions of reliable defense and state border protection provided by such authorities, the country is in a rather safe position. Yet, speaking of external economic defense, the Russian Federation in its current state doesn’t possess a full scope of institutions that monitor current and potential threats and take preventive actions [1].

External economic activities of a country and its residents arise from inventory and monetary turnover through economic and thus monetary borders of such country. The economic border of a country matches its state border. The

state border is protected by the Border Guard Service, while the economic border is partially protected by the Customs Service that checks the match between documents and export-import cargos, collects export and import duties etc. Still, correct documents, matches between declaration forms and physical cargos, etc. are hardly enough to guarantee the national economic safety.

## II. INSTITUTIONS AND BALANCED MARKET GROWTH FACTORS IN EXTERNAL MARKET RELATIONS

Generally, economic safety of a country is achieved through following the objective laws of the market that call for balanced growth of this integral organic entity and for reasonable proportionality of national account balance volumes and national gross product designated for internal use. Such laws that require a relatively balanced market growth, are to become a guideline for state authorities in charge for national external market activities. Once more, the problem is that in our country the institutions responsible for its external economic safety are not in full force and effect.

The key institution for shaping the collaboration policy applied to the countries of global economics and for implementing such policy, is a specific ministry. Such ministry, the Ministry for Foreign Trade, existed in our country during the Soviet period and, for a short period of time, at the start of reforms of the market. Yet, later it ceased to exist, and external economic activities were “farmed out” to seemingly spontaneous market forces while in fact they were put under control of those forces that define the situation in the global economics and assigned Russia to the role of a passive supplier of primary resources at the global market. Some functions of this disbanded ministry were distributed between several departments of the Ministry for Economic Development and Trade. Moreover, they were distributed in a way that none of these departments had a global vision of the national external economic activities or any efficient instruments required for implementing nationally-oriented policies. So, the employees of such departments have no way to advocate actual national interests in their everyday activities. One of the most urgent issues today is to open up the system of national interests and

define institutions and factors for the balanced growth of the Russian market in the area of external market relations.

Let's repeat it, such institutions must include the Ministry for External Economic Affairs, and one of its instruments used to provide the balanced market growth in the context of external market relations is the national account balance (balance of payments). At the present time, according to the Central Bank of the Russian Federation (Bank of Russia) Act No. 86-FA from 07.10.2002, it is included in the competence of the Bank of Russia [2]. Yet, according to the clause 4, par. 14 of the said Act, the balance-related functions of the CBR are mainly limited by indifferent forecasting and measuring, while the objective is to make its corresponding parameters regulated and supported in order to provide the balanced market growth in the context of external market relations and implement corresponding national interests.

### III. THE POSITION OF THE RUSSIAN SCHOOL OF ECONOMIC THOUGHT

The Russian school of economic thought states that this balance reflects not the "external gross product" but consists a part of the national gross product (NGP). And this part has to possess its objective limitations. For the country that doesn't want to lose the opportunities for independent political functions, the share of this balance in the NGP shouldn't exceed 20% [3]. If the share is larger and tending to grow the country will be gradually turning from an independent self-sufficient national entity into a dependent segment of global economics. And while the growth of a specific segment is impossible without correlating its functioning with other segments, the national government will be deprived from implementing the policy that corresponds true national interests. The leading role in this new global entity will be attributed to the segment, i.e. the country, with the largest share. The other countries-segments will be limited to adjusting their actions to the policy of the majority shareholder. Such shareholder in the modern world is the USA.

Yet, Russia is the country that, unlike the absolute majority of other countries included in the global economics, can and must exist in the mode of economic self-sufficiency. So, the amount of its account balance really shouldn't exceed 20% of the NGP. This is the number that should act as a reference point for the newly established Ministry for External Economic Affairs. And the amount of this balance in absolute terms can gradually increase with the growth of the NGP itself. The Ministry for External Economic Affairs should execute the policy that guarantees a reasonably self-sufficient national economics. From a practical point, such policy should be focused not only on growing a widest range of national economic sectors but also on warranting that the development levels of those sectors were comparable, i.e. preventing significant dominance of some sectors over others, so that the sectoral structure of the national economics wouldn't grow into a primitive monocultural entity.

Certainly, the country can't produce some commodities due to natural and partially historical causes. So, such

commodities are to be included in the list of goods accepted for import. The demand for import leads to the demand for export (and vice versa, certainly). The export must consist of two parts. The first part should include the goods produced within that national economics in the volume that exceeds internal market demand; the second – the goods that are, so to speak, reciprocal for the external market activity counterparties. The export of this second part of goods is determined by the need to maintain the competitive ability of local manufacturers and their goods at the global level. This, the Ministry for External Economic Affairs should control, balance, and regulate the local export and the import of equivalent commodities. Their volumes must be roughly equal. So, if a country is unable to export commodities from certain groups, basically, it doesn't have the "economic right" to import similar commodities.

However, import limitations may be in the form of mirror policy towards the partnering countries. So, if these countries don't accept local commodities to their markets, their commodities are not to be accepted to our national marketspace. Yet we have to note that while there may be almost no equality in the national account balance for each specific commodity group, it still has to be sustained for all commodity groups in general. For example, the hi-tech commodity export share must be almost equal to the similar commodity import share. Same is for raw materials as commodity goods.

The national account balance (balance of payments) must be balanced towards the partnering countries. However, equilibrium here should be considered for all countries in general, not for each specific country. So, if there is surplus balance of payments with some countries there must be deficit balance of payments with other countries, i.e. negative balance. In general, for all countries, these negative and positive numbers should be intercompensated in order to create an equilibrial balance of payments. Such balance occurs to be one of the major factors of national economic safety and balanced market growth.

The other factor is equilibrium in foreign exchange balance. It should be noted that the concept of foreign exchange balance is not very common in the modern economic science that aligns itself with the neoliberal mainstream. This school of economic thought reflects the interests not of economically developed countries but of transnational corporations where the concepts of "national borders", "national interests", "national safety" contradict their nature [4] [5]. This school advocates unrestrained globalism that requires only a limited number of national currencies used for settlements within external market relations. So, the countries whose national monetary means are qualified as currency assets, do not have foreign exchange balance as they use their national currency for export and import, while foreign exchange balance is the ratio of foreign currencies to national currency for the purposes of external market relations. Foreign exchange balance is also absent in the countries where national monetary means are not qualified as currency assets, i.e. not used for the purposes of external market relations. For such

countries, foreign currency reserves act not as a part of exchange balance but as a part of so-called Central Bank's foreign reserves. Foreign currency inflow (mostly in the form of export revenues) in such countries serves as the Central Bank's dominating foundation for a new national currency issue.

The Russian school of economic thought considers such state of affairs not only unscientifically based but contradictory to national interests, a threat to the foundation of national economic safety. This school states that division of national monetary assets to currency and non-currency is not reasonable from a scientific point of view and not justified in the context of equal statuses of countries that form the global economics. The agreement on differentiating national monetary assets into currencies and non-currencies was issued at the Jamaica Monetary Conference in 1976. The details of this agreement were defined mostly by the fact that monetary systems of economically developed countries suffered from a most profound crisis. In order to overcome it, Central Banks of these countries resolved unanimously to repudiate of all their obligations towards the holders of banknotes issued by them. Banknotes stopped representing the Central Bank's monetary gold stocks; yet, what would they represent instead, the above-mentioned Conference didn't specify clearly. By default, in new conditions they have been considered to represent Central Bank's assets.

The question of maintaining such Central Bank's assets in various countries is a specific matter that we will not address here; we just state the indisputable fact that, actually, national monetary assets used for settlements in external market relations, represent the commodities exported by those nations. And if a nation really has any export, its monetary assets must be used for international market settlements. Exporting operations should be effected with national currency assets, while importing ones — with foreign currency [6]. In such conditions, monetary assets of any country that exports its commodities to another countries, must be qualified as currency, and the country must have its currency balance.

This balance is one of the instruments that regulate external market activities. It must be a true balance, i.e., same as the balance of payments, must be balanced at the set value of exchange rate. The amount of national monetary assets used in external market settlements must be equal to the amount of foreign currency assets within the country and its residents. In such conditions, the major issues of maintaining the balanced national growth in external market relations are, first, defining the currency exchange ratio and, second, defining the amount of national currency assets abroad and the amount of foreign currency assets existing in said country.

Briefly touching the first issue, we should note that national currency exchange ratio can't be influenced with just the market spontaneous force, its "invisible hand" [7]. It must be the result of two circumstances: first, the objective correlation between potentials of countries involved in mutual market connections, and second, the achieved

compromise between these countries' national interests. Leaving aside the question of accounting all circumstances that define economic potentials of the countries that want to find a mutually agreed currency exchange ratio<sup>1</sup>, we will state the fact that representatives of these countries – Central Banks – should come to an agreement on their currency exchange ratio for a certain period of time, for example, for one year. And, considering the fact that some processes may occur during the year that can't be foreseen in their entirety, the representatives of the national monetary institutions should agree not on a fixed value of exchange rates but on a certain corridor to limit potential fluctuations during the year. Such corridor gives necessary security to the participants engaged in external market activities, allowing them to implement their projects, and has a positive impact on the economic dynamics of the country.

It is obvious that the exchange rate for the national currency has to be set with regard to the currencies of all countries partnering in external market activities. So, the national "currency basket" must include currencies of all partnering countries, not only those that were defined by the Jamaica Monetary Conference agreements. The amount of currencies of any given country, kept in the national "basket", as well as the amount of national currency kept by the residents of the partnering countries, should be defined by the amount of the balance of payments between countries. So, if the balance of payments amount of the Russian Federation with the USA is very moderate, the weight of the US dollars in Russia's "currency basket" should be also very limited. Yet, in the modern conditions the situation is completely opposite – it reflects the agreements of the said Conference and responds the interests of the countries that issue "hard currency".

The concept of such "currency" itself in the modern conditions is a nonsense as this "currency" is not converted to any Central Bank assets anymore. Within the scope of the modern monetary system, Central Bank already doesn't position the cash funds it produces as its obligations that have to be converted to its assets of some kind. In the modern conditions, there is no monetary scale that shows the amount of assets represented with one national monetary unit. So, in modern conditions there should be no such concepts as "reserve currency" or "hard currency" [9]. The monetary assets of any country engaged in exporting operations to other countries, shall we repeat, have to be qualified as currency. In reality such assets are (have to be) to represent not the Central Bank assets but the exported commodities.

Whether the USA, EU and a range of other countries whose monetary assets are widely used now for international settlements, will agree with this scientifically proven approach, is a rhetorical question. Still, if it is not raised and voiced at various channels and international forums it will not be answered and solved; and there will still be injustice in relations between the countries of the global economics. The Russian Federation has all means to change the monopolar character of the world order. It has to act as a

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<sup>1</sup> More details on this aspect can be found in [8].

pioneer in shaping the new global currency system and make necessary practical steps in this direction.

#### IV. CONCLUSION

The Russian school of economic thought states definitely that in order to provide balanced growth of the country in external market relations, rouble has to be qualified as a currency unit, the balance of payments and the currency balance have to be kept in the balanced state, and not only the state border but the economic and currency borders as well have to be controlled. The national currency border exists within the framework of the monetary banking system, where currency is turned into monetary assets and vice versa. Just like citizens can't uncontrollably cross the state border, and shipments – the customs border, currency is not to be transferred from one country to another unsupervised. These flows have to be under control, regulated by the Ministry for External Economic Affairs and the national Central Bank. Such institutions must make necessary contributions to provide balanced growth of their country in the external market relations.

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