

1.3 SOCIOECONOMIC DEVELOPMENT PRIORITIES

The main thesis of Karelia successful socioeconomic development is *to be required due to its uniqueness (distinctiveness) – by Russia and other countries and regions wishing to establish global cultural and economic links.*

The factors determining the region's identity serve as a base of its competitive advantage and result both from the choice of strategic course of development and from the priorities that guide public policies and the ways of their implementation.

1.3.1 Human Capital Development

Social reproduction of population is a basis for evolutionary development of the region's community. It involves the following kinds of reproduction:

- demographic (new generations);
- qualification and competence;
- spiritual and cultural;
- social institutions.

It is the sector of education that should be considered a major source of economic growth in the long run. In order to be competitive, the region requires appropriate entrepreneurial culture and state-of-the-art educational environment to provide training for highly skilled personnel that would be capable of creating efficient economy and acting as mediators between the stakeholders at all levels: global, national and local.

In globalization era, cultural and mental distinctions lay the groundwork for competitive advantage and significance of the region. If it is to be competitive, the Republic of Karelia has to preserve and develop its unique assets, including national cultural values. The availability of such assets plays a critical role when making company and investor decisions to locate businesses on the Karelian territory. These assets are of great importance for key Karelian stakeholders (authorities, business community and public), as - in comparison with neighboring regions and countries - they provide no less value at a lower cost. Still, the value of the unique assets depends on the efficiency of their exploitation.

The marginal location of the Republic of Karelia in the north-west of the Russian Federation is a strategic factor of national importance. The unique position of Karelia and encouragement on the part of Finland stimulate intensive rapprochement between Russia and North-European community. Currently, Karelia is becoming an area of effective integration of Russian and world best practice - both in economic and social sectors - in the framework of mutual advantageous international relationships and increasingly efficient development of the region.

Due to its cultural, historical and ethnic originality as well as its unique geopolitical location, the Republic of Karelia acts in a certain sense as a point of interaction and mutual enrichment for Russian and western culture.

In order to achieve competitiveness of the territory appropriate business culture, modern education system and trainings of high-qualified staff able to serve as agents between participants of international, national and local levels, were developed.

1.3.2 Spatial Territorial Development of the Border Region

The challenge facing the Republic of Karelia is to become a supporting region that would ensure production, technological and social cohesion of the country and would offer economic projects and cultural initiatives not only of regional, but also of national significance - because of the core competences of its population.

The new spatial framework of the republic is built upon determination of “growth points” and “development corridors” and functional zoning of the territory.

Looking at the region's territory, one can identify what can be called “support areas” (administrative, transport and logistics, trade and cultural) – the most vibrant cities and districts charged with the responsibility to function as “locomotives” helping neighboring territories to catch up (see Fig. 1.14).

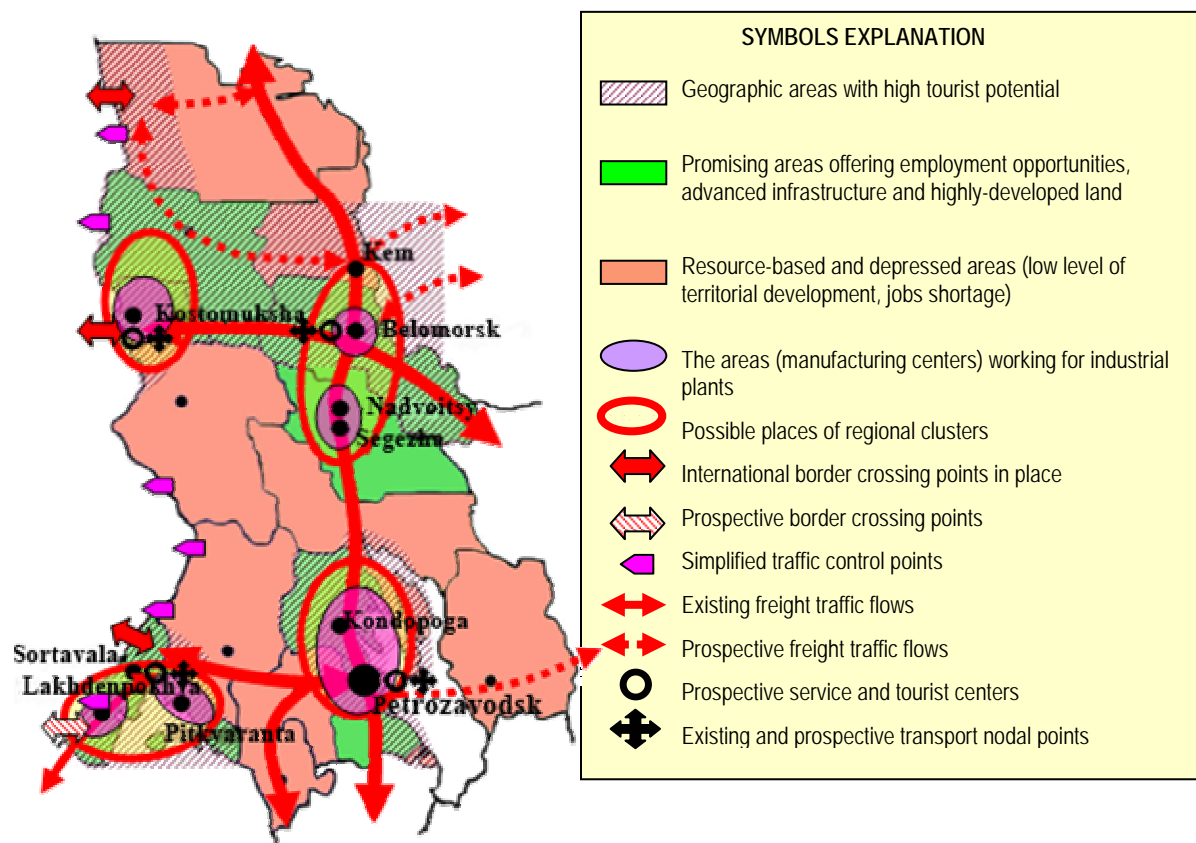


Fig. 1.14 The territorial framework of the Republic of Karelia development

These areas are the centers of specialized territorial-production clusters formation. Clusters differ from other forms of economic organization in that they have internal competitive environment and, moreover, enjoy a broad involvement in world economy and hold a strong position in global market.

An important component of the region's territorial framework is the infrastructure, first of all that of network industries: power engineering, transportation, informatization, telecommunications, border and customs infrastructure.

Transport infrastructure development

The main goals of road and transportation management are: to improve operating conditions of motor roads and road facilities in order to provide highway users with comfortable and safe traffic environment; to take part in creation of transcontinental transport corridors passing through the territory of Karelia; and to build the republic into international transportation and logistics systems.

Energy infrastructure

The main goal of energy infrastructure development is to deal with tight supply in the electricity market and to increase electric power generation - by means of implementing investment projects designed to help complete the construction of the planned generating plants; enhancing energy efficiency and introducing measures that would

promote energy saving on the base of alternative energy resources; encouraging design projects to build nuclear power-plants on the region's territory.

Information space

The main goals of information infrastructure development are: to create a uniform regional information space and provide conditions for shaping and expansion of information society; to carry out administrative reform that seeks to update the system of informational support for the regional government; to develop information service market; to create conditions for adoption and development of electronic business practices; to ensure informatization of economic and social sectors.

Telecommunications

The transition to information society requires development and application of modern technologies that would create conditions for complete coverage of the corporate sector and the public with state-of-the-art information and communication services, including the availability of Internet access. This would provide access to information resources, ensure civil mobility and enable to overcome the information space.

Cross-border relationships and frontier infrastructure development

The main goals of cross-border relationships and frontier infrastructure development are: to raise economic significance of the border and to make the most of the region's borderline and transit potential; to organize the frontier area and develop the appropriate infrastructure; to develop a network of international border crossing points; to ensure adherence to free trade principles when joining the WTO; to prepare and implement projects and programs enabling the republic to function as an outpost and transit territory in the north-west of Russia - and therefore to further cross-border cooperation and trade.

Settlement system and social infrastructure

The development of human capital and actualization of the region's territorial potential require improvement of health care, education, cultural and social rehabilitation systems, enhancement of national and religious identity, advancement of civil society institutions. The particularly important factor for maintaining the regional settlement system is the development of municipalities and community organizations.

Innovation infrastructure

In order to raise the region's competitiveness, it is necessary to provide full-scale operation of the innovation cycle "idea – technology – new product/service". The key to speed up the pace of technological and social innovation is the formation and development of small and medium-sized venture enterprises. A system of public-private partnership comes as a basis for regional innovation infrastructure.

Thus, the new framework of Karelia development is focused on creating a spatial organization that would increase the value of assets possessed by territorial communities and would help enhance human capital and living environment of the region's population.

1.3.3 Raising the Region's Competitiveness on the base of Social Modernization

Guiding principles for selection of projects and types of economic activities:

First, one has to take into consideration the particular characteristics of transitional period. An important feature of Karelian economic policy is the need to stimulate assets formation and encourage change of ownership patterns in order to generate a "proprietary middle class" that could serve as a basis for increase in demand (above all - demand for housing and other articles of permanent use) and for civil society development.

Second, it is essential to create manufacturing networks and product chains while relaxing infrastructural restrictions. The major task of the Republic of Karelia is to provide capitalization and financial measurement of all regional resources used in economic activity, and to develop infrastructure.

Third, for any economy to be competitive, its agents (economic entities) operating in the environment free competition have to produce goods and services meeting the requirements of the global market. An essential condition of transition to the new economy is the realization of the innovation cycle "idea – technology – new product/service" and the long-term policy aimed at reconstruction of the industrial structure of economy, introduction of new production technologies and increasing the proportion of high value added goods. Hence, the most important task of economic policy of the Republic of Karelia is to significantly increase labor productivity and capital efficiency on the base of fixed capital renewal, human resources development and innovation infrastructure build-up.

Fourth, all projects should be considered as a part of integrated construction assembled from different capital sources on the base of a certain framework of regional development. The most important task of the Republic of Karelia is to focus on property concentration that would enhance horizontal integration.

Fifth, in order to integrate into global economic system, in the medium term it is necessary to make a transition to post-industrial society and in the long term - to information society integrated into Russian and world information space. This requires addressing such issues as information security, information infrastructure development, informatization and artificial intellect.

Sixth, to be competitive, the region needs appropriate educational environment, business culture and highly-skilled human resources capable of acting in the framework of global information space as mediators between the stakeholders at all levels: global, national and local.

If the Republic of Karelia is to join the system of global exchange and international division of labor, it has to upgrade its economy in terms of labor productivity and capital efficiency, to search and develop reasonable investment and innovation ways of the GRP increase - by means of creating competitive regional clusters; encouraging increase in assets of every type and considerable renewal of fixed capital; providing for personnel training; promoting informatization.

According to the present economic structure and geopolitical situation of the region, there were suggested such initiatives as development of competitive regional clusters - dynamic and internally competitive network of closely localized enterprises making a unified reproduction chain (from raw materials to the final consumer).