Economy in Conditions of Sustainable Development: Risks and Opportunities

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Abstract. In 2022, the Russian economy faces new obstacles that reduce the potential for economic growth in the medium term. What are these challenges? How do they change the growth trajectory? What opportunities exist to mitigate their negative impact? The answers to these questions will allow us to update the development strategy, taking into account the increased constraints. Since ongoing events change the structure of the economy, in order to overcome them, it is necessary to consider the structural elements of the economic system. These include characteristics of the development of the economy at the level of key elements of production, income and demand. In turn, a structural approach to finding opportunities to mitigate negative impacts requires an analysis of the possibilities of structural maneuver. All this will make it possible to find directions for sustainable economic development.

1 Introduction

The dynamics of the main macroeconomic indicators is largely formed as a result of complex intersectoral interactions. The high importance of structural factors in the formation of economic dynamics in the short and medium term implies the use of analysis and forecasting methods that take into account the characteristics of the sectoral structure of the economy, as well as the existing system of intersectoral interactions [1]. Accordingly, it is required to use not only sectoral statistics, but also data from input-output tables, as well as other sources of information that make it possible to carry out predictive and analytical calculations regarding the relationship between dynamic and structural characteristics of economic development [2]. For example, only with the use of such an approach it is possible to estimate the full macroeconomic effects within the framework of production activities, taking into account the system of cooperative relations existing in the economy and the distribution of income.

The events of February-March 2022 radically changed the principles of the functioning of the Russian economy. This was especially evident in economic relations with the outside world. Under the influence of these changes, the foundations of Russian economic policy, which have been formed over the past decades, have been transformed. First of all, we are talking about the principles of embedding our country into the international system of economic relations and related mechanisms for the formation of monetary and budgetary...
policy [3]. These principles were based on maximizing income from foreign economic activity and building a reproduction model based on them. There was an exchange of high-quality resources between Russia and developed countries, which ensured access to the necessary goods and services. However, a side effect of the implementation of such a model was the preservation of the technological backwardness of the Russian economy.

2 Research Methodology

An important limitation of economic development is foreign trade restrictions associated with the regime of anti-Russian sanctions. This is what will determine the dynamics of the development of the Russian economy in the short and medium term. Foreign trade restrictions hinder the satisfaction of demand for products and services of final demand, as well as imported raw materials and components [4]. Foreign economic barriers also limit the export of Russian raw materials. Thus, not only a possible decrease in export earnings, but also a decrease in imports limit the growth potential of the economy in the short term. Compensatory mechanisms that use the existing potential for the economic development of the Russian economy can counteract the negative trends in the break in trade and economic relations with developed countries. One of these mechanisms is the development of the domestic market and the intensification of relations with friendly countries.

The full functioning of this mechanism requires an increase in the efficiency of production and the quality of economic growth, which is especially important in the context of an attempt to cut Russia off from the key results of scientific research and development in developed countries. It is also important to determine the criteria for the implementation of projects to develop industrial cooperation and restore destroyed production chains. Taking into account these factors will ensure an effective response to emerging challenges in the medium term [5]. Russia’s technological backwardness from developed and a number of developing countries limited growth potential and constantly increased the economy’s dependence on imports. In fact, it contributed to maintaining the existing gap in terms of economic development between Russia and developed countries. However, in the conditions of 2022, the reduction in imports has led to a limitation in both domestic demand and production. The economy found itself in a situation where it was required, in terms of the theory of Academician Yu.V. Yaremenko, to compensate for high-quality resources with mass ones. The main direction of this compensation in the medium term may be the use of the capacity of the domestic market, available raw materials, competitive capacities in industry and construction. Of course, this process will not be “free”. Apparently, it will have to be paid for by a lower dynamics of production efficiency. It is important that this period of exchanging quality for quantity be relatively short.

3 Results and Discussions

The slowdown of the ESG agenda in our country is already taking on tangible forms. In particular, until December 31, 2024, the deadline for submitting applications for integrated environmental permits (IEP) by 300 most environmentally disadvantaged enterprises is extended. The introduction of mandatory automated environmental control at such enterprises that received IEP before March 15, 2022 has been postponed for two years [6]. The expansion of the list of territories participating in the experiment on quotas for emissions of pollutants into the atmosphere has been shifted for a year (until September 2023), and the completion of the experiment was postponed for two years (until the beginning of 2027). With the same pause, LesEGAIS (timber accounting information system) will be put into operation. At the same time, the proposals to “put out the lights” and “get out” of the ESG agenda (including falsely understood patriotic aspirations) do not seem to have any significant basis. Indeed, for Russia, following the ESG agenda has been
and will be determined by a number of motives, namely 1) its own values and interests of its own development, 2) the interests of international economic cooperation, and 3) political motives [7]. The new situation partially changes the correlation of motives, but does not eliminate them. The first motive - the values and interests of its own development for Russia under all circumstances remains the main one, which means that the ESG agenda will not lose its relevance for our country. Other motives remain, as Russia has various economic and political partners. In this context, we note that in the sustainable bond market in 2021, Asia-Pacific countries already rank second after Europe (according to the Climate Bonds Initiative, 21.1% of the total sustainable bond market), while demonstrating the largest growth (an increase of 202% in 2021 by 2020). At the same time, clarification of the details of the agenda, in particular, a new approach to its separation over time, as well as the structural characteristics of its implementation, will definitely be required.

- Acceleration of the ESG agenda [8]. A potential ban on the import of hydrocarbons from Russia and rising energy prices will additionally stimulate the acceleration of the ESG agenda, since the reduction of the negative impact on the climate and the environment, the formation of a lean economy will be further stimulated by the forced search for alternatives to traditional hydrocarbon supplies [13]. Changing consumption patterns. An increase in the demand from the population for renewable energy sources is recorded against the backdrop of an information agenda about the shortage of traditional energy sources. Emphasis on the environmental component [14]. The prevalence of the E-factor (climate and environment) in reporting, goal-setting and information agenda, observed over the entire existence of the ESG paradigm, will continue and even strengthen (which is different from the situation in Russia). Growing responsibility of companies for the reliability of data in the ESG-sphere.

The observed strong growth in the market for sustainable bonds and other responsible investment instruments will increase pressure on the reliability of non-financial reporting. The global development of the agenda is not without a number of dilemmas. Already at the first stages of the practical implementation of the concept of CSR, many saw it as a screen to hide the real practices of corporate selfishness [9]. Since following the principles of ESG has become one of the factors in attracting funding, the practice of misleading stakeholders about the implementation of their environmental or social mission (the so-called “impact washing”) has become widespread. Due to the dominance of climate and environmental components, “greenwashing” has become widespread — false positive information for the company about its environmental impact on the environment. For example, in order to improve ESG performance, a company in the metals sector initiated the creation of a new company that will get its assets with a higher carbon footprint, after which it will be able to receive a price premium for the green metal, but the environmental pollution will not decrease. To date, there are more than 70 standards (which means only one thing - there is no ESG standard itself) and about 600 rating systems that are used to evaluate companies: they characterize the quality of their corporate governance, commitment to the values of the “green” economy or the diversity of its workforce. However, none of them is comprehensive and comprehensive [10]. The ISO Standards (14000, 26000, etc.) are widely known, they are characterized by global acceptance in all industries, and at the same time, the lack of a tangible basis for conformity assessment (for example, a list of criteria, etc.), as well as limited disclosure potential. The Carbon Disclosure Project standards are also used by major corporations around the world and are distinguished above all by their ease of use. However, the emphasis on environmental metrics (such as carbon footprint, water and energy consumption) and the targeting of major firms (eg FT Global 500) for public disclosure significantly limits its scope [11]. A special place is occupied by the standards of the Global Reporting Initiative, which are characterized by global recognition and widespread use in different countries and industries, ease of use, availability of templates and constant updating [12]. However, the flexible choice of criteria leads to overestimation or underestimation of reporting indicators. In addition, the standard is open to subjective and biased assessments.
4 Conclusions

Based on a variety of standards, the ESG rating system does not allow market players to make informed decisions in the allocation of capital in an ESG-conscious way. Is- ESG: Three Letters That Change the World 10 A study by Florian Berg of the MIT Sloan School shows that different ESG ratings are consistent six times out of ten. When comparing MSCI and Sustainalytics ratings for S&P Global 1200 companies, CSRHub found a weak correlation (0.32) between the two ratings. This is in stark contrast to credit ratings, which match 99% of the time. For example, Moody’s and S&P credit ratings have a very strong positive correlation (0.90).

The bottleneck in SPE ratings (sustainability performance evaluation) is a high level of subjectivity in terms of the choice of indicators, their aggregation and evaluation. The qualitative nature of many of the criteria, especially the social and governance aspects of sustainability, makes SPE a largely subjective practice. Businesses need less biased settings that can be applied easily and practically. Confidence in the SPE can be increased by adopting robust uncertainty and sensitivity assessment tools3, which in turn can be achieved using operations research and fuzzy logic tools. Data sources that are used within the ESG paradigm are usually voluntarily published company sustainability reports and/or survey data. Voluntary reporting allows you to customize the data that companies represent and position the latter in an exceptionally advantageous light. The ability of companies to manipulate the disclosure process is not limited in any way.

The structure of consumer demand remains a significant constraint on economic development. At the same time, during the crisis of 2022, there were all signs of a further deterioration in the structure of consumption. This means that in the discussion about what should initiate a new cycle of economic growth, there is no rational choice between investment and consumption of the population. The new economic policy should ensure the modernization of production based on the frontal growth of consumer and investment activity. Resources for this are still available. The forced period of exchanging qualitative characteristics for quantitative ones does not mean that the issue of production efficiency goes by the wayside (in all its manifestations, including environmental and climatic characteristics). It’s just that Russia, due to the scale of the economy and the availability of primary resources, has the opportunity to live for a certain time under the conditions of a compensatory development mechanism. However, the transition to the predominance of the qualitative component in the formation of economic dynamics has no alternative. This means that a set of large projects and sectoral strategies should consider efficiency parameters as key, and the implementation of aggregated performance characteristics through the sum of technologies used requires appropriate investments in research and development. Due to security requirements and the presence of large industrial complexes, as well as newly emerging external constraints, Russia cannot afford to implement an innovative model focused primarily on importing foreign results. Hence, there are requirements for an increase in R&D costs in the medium term to at least 2% of GDP. Otherwise, it will be impossible to provide a qualitative component of growth. 4 Increasing the qualitative component of growth2 by 2030 to the level of 55–60% will, according to our estimates, ensure an average annual growth rate of 2.3–2.5% in the period 2022–2035. At the same time, in the period 2025–2035, despite external economic restrictions, they may exceed 3%. In this case, consumer and investment demand can be the key growth factors. The inability to use the existing potential of the domestic market and the lack of qualitative shifts in economic dynamics will transfer the economy to an inertial scenario with GDP growth rates of 1.5-1.6% per year.

References
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