

### The role of International trade in improving the competitiveness of Saint Petersburg

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THE ROLE  
OF INTERNATIONAL TRADE  
IN IMPROVING  
THE COMPETITIVENESS  
OF SAINT PETERSBURG

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*This article aims to explore the prospects for the development of international trade and the impact of trade on increasing competitiveness of Saint Petersburg. To this end, the authors study the theoretical aspects of regional competitiveness as such, analyse the ten years' data on the city's international trade, and explore the significance of image, reputation, and information support for the region's international trade provided by business information centres abroad. The authors employ the methods of expert opinion and statistical analysis as well as the authors' own data to consider the problems of international trade development in Saint Petersburg and the ways to improve the city's competitiveness. The authors estimate the international trade performance of Saint Petersburg and outline the key areas for increasing the city's competitive ability. This article has theoretical and practical significance for experts studying regional competitiveness, for regional authorities, and the business community.*

**Key words:** foreign economic potential of the region, competitiveness of the region, foreign trade, territorial brand

### Introduction

International trade carried on by companies, regions, and states is studied by different sciences. A special research area focuses on the problems of integration at different levels and of the world economy in general. Twenty-five years ago, the regions of the Russian Federation (further, RF) were granted the right to implement the state's international economic cooperation policy. Border regions and large industrial centres developed international trade and economic ties with overseas partners. Territories rich in natural resources engaged in exporting raw materials.

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The unstructured development of regional international economic activities and a lack of necessary administrative competencies caused numerous theoretical, methodological, and practical problems of administering imports and exports.

Without denying the short-term positive effects of international trade liberalisation that took place in the 1990s, the absence of a clear governmental strategy created a variety of problems relating to export and import relations. One of them was the low competitiveness of Russian goods and services in the international market.

Solving these problems and strengthening Russia's position against the backdrop of severe competition in international markets requires an integral approach to the complex problems of public governance in this sphere. Experts pay special attention to the role of Russian regions in implementing Russia's international economic policy. This article explores the connection between a city's competitiveness and international trade potential in the case of Saint Petersburg. It analyses the principal components of a city's international trade and the information aspects of competitiveness and produces recommendations for optimising regional international economic activities.

### Theoretical aspects of regional competitiveness

The economy of the RF is experiencing hard times. Plummeting prices for oil and gas, sanctions, slower economic growth rates, an increasing budget deficit, and falling purchasing power have a negative effect on the country's economic development.

Overcoming the above negative trends requires significant economic and institutional reforms, in particular, the development of competitive relations. Competition is the cornerstone of economic growth. Economic competition between economic agents and economic sectors build up the power of a state and secure its position as an economically developed and prosperous country.

Competitiveness in international markets makes the development of national competition and regional cooperation a major challenge for Russia. Economic and analytical studies often give negative forecasts for the country's development under imperfect competition. One of the works devoted to competition in the gas, construction, freight, and pharmaceutical industries makes a gloomy prognosis — underdeveloped market competition will have long-term political consequences, including political system instability and problems with the legitimacy of political authority. There are institutional prerequisites for the development of competitive businesses and of a mechanism for a positive feedback between businesses and the state [13, p. 115].

Until recently, the theoretical and practical aspects of competition have been considered from the perspective of a business, an industry, or a local market. The idea of territorial competition has been analysed through the prism of the competitiveness of local businesses. For instance, N.N. Skor-



nichenko believes that the competitiveness of a business affects that of a region through the production and sale of goods, the payment of salaries, and the organisation of social and cultural events [27, p. 824]. N. N. Skornichenko argues that the above will create a positive investment climate and improve standards of living. In our opinion, such a simplified approach to estimating regional competitiveness is not productive. The above factors have only an indirect effect on regional competitiveness, which is influenced solely by import substitution enterprises and by companies that comprise the system of vital and export-oriented industries that are crucial to the budget formation. Thus, one of the targets of the governmental programme for international trade development is to increase the proportion of machines, equipment, and vehicles in exports. Of course, major companies have a significant effect on a region's position. As a phenomenon, the concept of 'competitiveness' is realised in both the industrial aspect and geographical space. It is used to describe individual countries and regions since a territory as a legitimate object of governance can be either competitive or uncompetitive [9]. This multi-aspect topic has been developed in regional studies devoted to the problems of Russian regions' competitiveness both within the country and in external markets. Within the relatively young science of 'regional economics', the term 'regional competitiveness' emerged quite recently and it has been discussed extensively by both international [1—2; 5—8] and Russian researchers [13—14; 18].

It is important to consider the diversity of approaches to interpreting regional competitiveness. Expert and analytical materials present different perspectives on the nature and essence of regional competition and the methods to assess and interpret it. This suggests that a new area of regional economics is emerging today, which requires an analysis and a critical revision of concepts and the development of a single perspective on the concept of 'regional competitiveness'.

For instance, V. V. Khudeeva considers the competitiveness of a territory from the perspective of governmental support aimed to reduce regional disparities. V. V. Khudeeva identifies the following targets:

- governmental support aimed to reduce economic disparities and ensure regional competitiveness;
- support for regional infrastructure development;
- support for investment projects set to create and promote advanced development clusters and zones;
- special governmental support institutions [30, p. 208].

Apparently, such definitions are based on a dependency concept of regional competitiveness. Such concepts place emphasis on the comprehensive governmental support rather than the initiative of regional authorities. This approach is not viable due to the limitedness of financial and institutional resources of the state.

Some authors attempt to 'embrace the unembraceable' and to cover almost all aspects of regional development responsible for regional competitiveness. I. V. Pungin distinguishes eight factors of competitiveness, ranging

from the level of satisfying basic needs of the regional population to the level of decision-making [23, p. 56]. I. V. Pungin proposes a conceptual framework for developing a regional development strategy rather than increasing regional competitiveness. The context does not identify a region's competitors in domestic and international markets. The Northwestern regions, which have a relatively diversified industry structure, are outperformed by the Nenets autonomous region in terms of competitiveness. The competitiveness of the latter is determined solely by oil extraction and exports.

A similar approach is taken by S. G. Vazhenin and I. S. Vazhenina. They believe that the primary goals of competition between territories are:

- 1) attracting Russian and foreign investment;
- 2) developing domestic tourism and attracting international tourists;
- 3) securing rights to hold business, cultural, and sports events;
- 4) creating an attractive image and establishing a high reputation;
- 5) creating a vibrant business climate;
- 6) ensuring economic and financial stability [13, p. 2].

However, the above factors are not autonomous. They are linked by cause-effect relationships. Foreign investment does not come to a region on its own but rather it depends on the business climate and a region's positive image. The right to hold business, cultural and sports events have been granted to all regions in accordance with the federal legislation. Some authors try to link regional competitiveness to the need of increasing the efficiency of national economies during crises in the world economy [26, p. 24]. Others emphasise the dynamic nature of the concept in question, taking it beyond the boundaries of a Russian region to consider it in the framework of a transboundary macroregion [33, p. 155].

In effect, the problem of competitiveness assessment reduces to selecting economic indicators, whose number can range from one (for instance, gross regional product per capita) to several dozens, covering different aspects of the socioeconomic development. The selection of indicators is based on the system used in studies published by the World Economic Forum and the Eurasian Institute of Competitiveness [24; 29; 34].

As a rule, regional competitiveness is assessed using econometric models and multivariate comparison methods. However, the results depend on the selected system of indicators, their economic interpretation, and the weight assigned to them. Without discussing the methods for and approaches to assessing territorial competition, it is important to stress that national economic growth requires taking into account regional international trade. Nevertheless, this topic is rarely considered in works on regional competitiveness. Studies do not contain dynamic examinations of the balance of trade, nor do they analyse the export/import ratio and industry breakdown, nor address public foreign trade policy at the level of Russia's regions, despite the requirements of the federal legislation.

Apparently, there are too few large companies — major taxpayers and goods and services exporters — in many regions of the RF. This makes for-

foreign trade irrelevant and thus it is overlooked by experts and authorities. According to the expert. ru company, in 2010, the 250 largest business of the Northwestern federal district by the volume of sales included three enterprises from the Republic of Karelia, four each from the Vologda and Pskov regions, six from the Arkhangelsk region, eight from the Murmansk region, ten from the Republic of Komi, sixteen from the Kaliningrad, and twenty eight from the Leningrad region. Saint Petersburg was represented by 166 companies. Even if one excludes banking, telecommunications, and sales companies, most of the remaining top enterprises will be oriented to the domestic market. Therefore, imports and exports are crucial to assessing the competitiveness of Saint Petersburg. The foreign economic activities of a region are affected by its international trade potential, which, in its turn, is influenced by external and internal factors (see table). Positive changes in the elements of international trade potential affect a region's competitiveness.

#### External and internal factors affecting regional international trade potential\*

External factors	
geopolitical	geoeconomic
• Eurasian Arc of Instability	• Eurasian Economic Union
• geopolitical peace scenarios: new cold war, rise of Eurasia, deglobalisation	• other trade and economic integration unions — ASEAN, BRICS, Shanghai Cooperation Organisation
Internal factors	
Static	dynamic
• geographical position	• budget revenues and spending
• natural resources	• exports and imports potential
• infrastructure	• institutional and administrative factor
• human capital	• marketing and image potential
• urban development potential	• investment and innovations
• industry structure	• regional business climate

\* Compiled by the author.

Although the concept of international trade potential is still being discussed by researchers and there is not unanimous expert opinion, this article will use the following definition. The international trade potential is the total international trade capability aimed to optimise socioeconomic development through using a region's external and internal resources in the presence of an administrative system and information framework ensuring the international competitiveness of external ties. One of the key elements of a region's international trade potential is its economic geographical position (EGP). N. N. Baransky distinguished four major variants of EGP at different taxonomic levels [12]:

- central position;
- periphery position;



- neighbouring position;
- coastal position.

Later studies do not offer a new vision but rather they contain further details and attempt to model a spatial assessment of the EGP potential [17].

As the development of border territories became an urgent issue, the concepts of ‘favourable border position’, ‘proximity to economic centres and sales markets’, ‘proximity to resources and raw materials’, ‘proximity to transport routes and development of transport’ emerged in the literature. However, the variants of EGP identified by Baransky have not lost their relevance.

In the case of Saint Petersburg, the city’s coastal position plays the key role in enhancing its competitiveness. A coastal position means the possibility to use the cheapest means of freight transport. This facilitates the development of transport infrastructure and trade and contributes to the GRP growth. Of special importance is the nature of the marine neighbourhood. A number of studies emphasise that a region that has a maritime border with a trade partner or a maritime outlet that secures a minimum-cost route to such a partner, gains significant competitive advantages [21].

In classifying coastal regions, some authors expand John Friedmann’s typology and postulate ‘development corridors’ between the core regions of not one but two or more countries. In some cases, a region can combine characteristics of two (and more) types [25].

In our opinion, there is room for a more prosaic position. The core region may forge interregional connections with border territories, which will the development of trade and economic relations between them and facilitate the creation of a common transport and logistics network. Such connections may develop between Saint Petersburg, the Leningrad region, the Republic Karelia, and the Pskov region — territories located at the western borders of the RF. This may contribute to the implementation of the concept of international ‘development corridors’ [11].

Major factors affecting the competitiveness of Saint Petersburg are the international trade parameters, problems, and prospects.

### **Saint Petersburg’s international trade in figures**

According to the Federal Customs Services, the foreign trade turnover of Saint Petersburg in January-December 2015 reached USD 33 b. As compared to 2014, the trade turnover declined by 34%, whereas the total value of imports decreased by 35% and that of exports by almost 32%. This was a result of the sanction policy of the US and the EU. An analysis Saint Petersburg’s 2008—2015 exports (excluding minerals) shows that they were increasing at a rate of 7% a year. This is three times the national average (fig. 1). Thus, the dynamics are positive in a mid-term perspective.



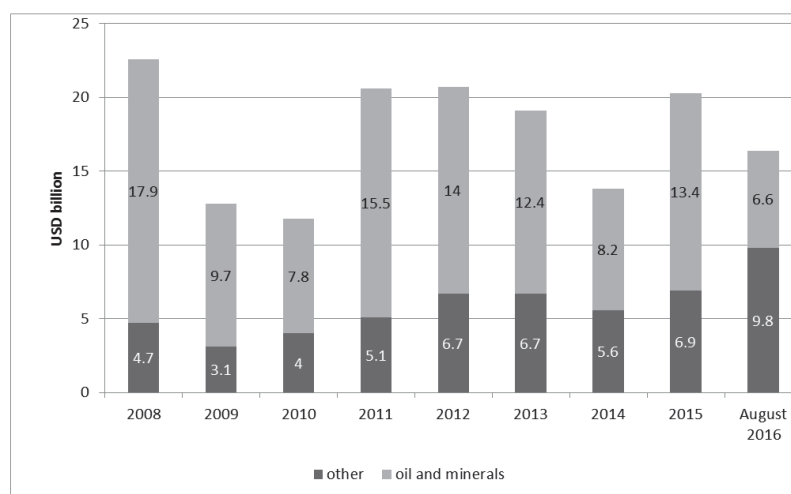


Fig. 1. Saint Petersburg's exports in 2008—2015 and in August 2016, USD billion

Source: Federal Customs Service of the Russian Federation.

A major problem of Saint Petersburg's international trade is insufficient goods diversity. Although the city's oil and oil product exports decreased significantly in 2008—2015, their proportion in the total overseas sales remains considerable and the goods structure of exports insufficiently differentiated. The 2013 goods diversity index — calculated based on four items from the international trade commodity classification — reached 3.99. The *diversity coefficient* is a measure inverse to the Herfindahl—Hirschman Index. The index can vary from 0 to the number of items used in the calculation. The higher the number, the more diversified trade. It is calculated as follows:

$$\text{Diversity coefficient} = \frac{1}{\sqrt{\sum_{i=1}^n \left(\frac{X_i}{X}\right)^2}},$$

where  $X$  stands for total exports;  $X_i$  for total exports of the selected item, and  $n$  for the number of positions.

Calculations performed as part of an integrated study of Saint Petersburg's external markets aimed to identify the city's export specialisations yielded a list of 93 items. The total 2013 exports of such items amounted to USD 16.2 b or 85% of Saint Petersburg's total exports. These goods represent the following commodity groups: oil, oil products, and minerals (75%), metals and metal products (8.5%), foods and agricultural products (5%), and machines and vehicles (4%). Another list included ten export items with the most significant potential for growth. Based on that list, one can identify Saint Petersburg's major export industries with the greatest potential for growth. These are automotive engineering, pharmaceuticals and medical industry, electronics and electrical engineering, and wood processing.





Importing goods are an important element of Saint Petersburg's international trade. Studying statistics on the dynamics and structure of the city's imports suggest that Saint Petersburg acts as a mediator in trading relations between foreign countries and other regions of the Russian Federation. This is a result of the advantageous economic and geographical position and a developed transport infrastructure (fig. 2).

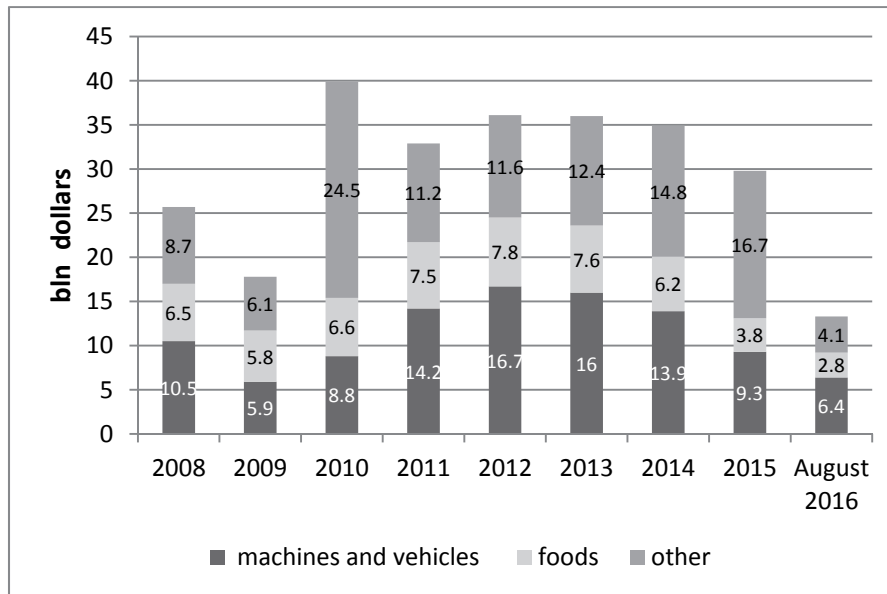


Fig. 2. Saint Petersburg's imports in 2008—2015 and in August 2016, USD billion

Source: Federal Customs Service of the RF.

The imposition of sanctions reduced significantly the proportion of imports within these categories. The city specialises in meeting national needs for imported foods and agricultural raw materials. The latest restriction on the imports of agricultural products from the EU, North America, Norway, and Australia necessitates increasing purchases from Latin America (Brazil, Argentina, Chile, Peru, etc.). This creates new opportunities for Saint Petersburg importing companies and enhances the region's international trade potential. The city's low natural resource potential attaches strategic importance to the development of international trade in services. Services trade turnover is the useful non-material outcome of activities aimed to meet certain needs. Major types of international services include transport, tourism (travel), construction, communications, finance, royalty and license payments, operating lease, etc. Such services should become an international trade priority in order to ensure high growth rates in a long-term perspective.

The highest rate of increase in global international trade has been observed in trade in services. In 2014, global trade amounted to USD 9.9 trillion. The trends in Russia's and Saint Petersburg's international trade in ser-

vices are in line with global ones. An increase was observed throughout the period under consideration (with the exception of the crisis year of 2009) until 2014.

In 2014, Saint Petersburg's international trade in services reached USD 4.5 billion, which accounts for 2.4% of Russia's international trade in services. Imports by exports coverage ratio reached 1.3 by the end of the year (fig. 3). In 2014, Saint Petersburg exported USD 2.5 billion worth of services, which is 12% below the 2013 level. Saint Petersburg accounted for 4% of total national exports. This is a poor result considering the city's potential. Transport services comprise 63%, communications services 18%, and business services 16% of Saint Petersburg's services exports. In 2014, the largest importers of Saint Petersburg's services were the US (11%), the UK (9%), and Finland (8%). Other importers included Cyprus and Germany.

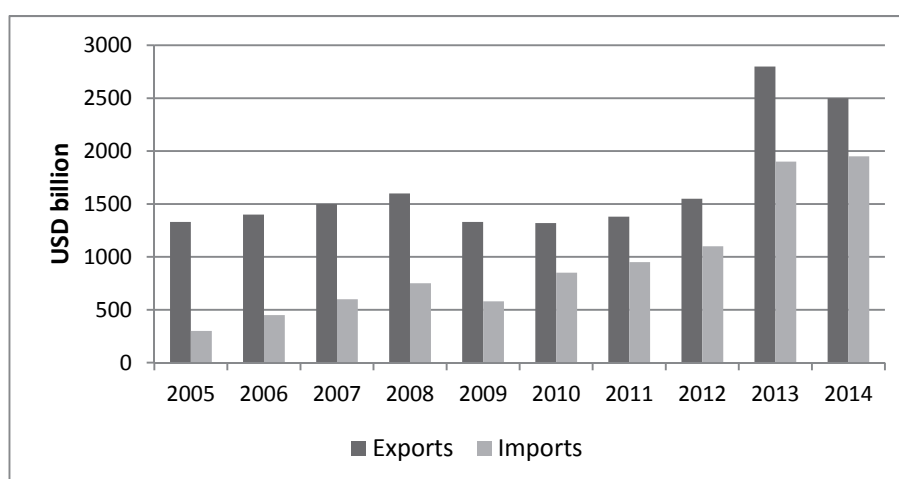


Fig. 3. Changes in Saint Petersburg's trade in services in 2005—2014, USD billion

*Source:* Saint Petersburg Committee on Informatisation and Communications.

In 2014, imports of services by Saint Petersburg's economic entities amounted to almost USD 2 billion. Transport services accounted for 47%, communications services for 28%, business services for 15%, royalty and license payments for 3%, and tourism services for 0.1% of the total services imported.

Imports and exports of certain items have grown over the past two years. However, the overall situation is stagnant and this requires special measures to increase the presence of Saint Petersburg in external services markets and to develop the city's research, education, cultural, and historical potential.

Education and tourism are crucial for the development of international trade potential. Today, 23.2 thousand foreign students from across 143 countries (including stateless persons) are studying at Saint Petersburg universities. Over 1.4 thousand students from 23 states (including stateless persons)

are enrolled on secondary professional education programmes. Further 2.2 thousand international students study in the city in the framework of mobility programmes [20, p. 69].

Special attention should be given to the growth in inbound tourism and changes in its geography. According to the Saint Petersburg Committee on Tourism Development, the number of tourists increased by 70,000 from 2013 people to reach 745 thousand in 2015. In 2015, 152 thousand people visited the city for business reasons. Most tourists came from Europe, Asia-Pacific region, and BRICS countries. An average stay lasted from two to five days. Average daily spending ranged from 100 to 250 euro. A daily spending of 100 euro translated into at least USD 80 million of budget revenues in 2015.

The obstacles to enhancing Saint Petersburg's competitiveness are as follows:

- insufficient geographical and goods diversity of exports;
- the mediating role of the city in meeting the other regions' needs for imports;
- the city's underexploited research, education, cultural, and historical potential for tourist and education services exports;
- poor quality and sparsity of trade and economic relations with the Baltic Sea countries — a result of the geopolitical crisis.

Russia's Government has taken steps to stimulate the development of regions and enhance their competitiveness through developing state and federal target programmes and establishing special economic zones, industrial parks, advanced development territories, and territorial clusters.

Some of the above instruments are used in the Northwestern regions. In Saint Petersburg, the pharmaceutical and automotive engineering clusters are considered the most promising projects<sup>1</sup>. The pharmaceutical industry has a broad social significance. An elusive object of study, it is crucial to public health. A complex institutional system of the pharmaceutical industry has developed at the national and international levels. Analysing that system requires a focus on different aspects and angles. This article will consider prerequisites for the creation of an automotive cluster, which will strengthen Saint Petersburg's export agenda.

In 2005, the Government of the Russian Federation adopted decisions targeted at the major players in the global automotive market, granting them

<sup>1</sup> Russia's federal laws contain a very broad definition of the 'industrial cluster', which is given from the perspective of a cluster's functional connections and boundaries. According to federal law No, 488-FZ On the Industrial Policy in the Russian Federation of December 31, 2014 (version of July 13, 2015), an industrial cluster is the 'totality of industrial agents linked by strong ties within the relevant field as a result of territorial proximity and functional dependence and that are located in the same region of the Russian Federation or in several regions of the Russian Federation'. Such a vague definition permits the inclusion of not only Saint Petersburg automotive companies but also those from the Leningrad, Kaliningrad, and other Northwestern region into a single automotive cluster.

a right to open assembly plants in Russia. Automotive leaders — Toyota, General Motors, Nissan, and Hyundai — responded with launching production in Saint Petersburg. A rapidly developing high-capacity automotive centre emerged in Russia's North-West [15; 16]. The Northwestern federal district is home to 25% of Russia's car manufacturing facilities. Northwestern companies account for 34% of the total national output, placing the region second to the Volga Federal District — a traditional automotive centre. Car manufacturers contribute to the non-raw materials exports of Saint Petersburg.

The prospects of the Russian automotive industry are outlined in the governmental programme for Industrial Development and Enhancing Competitiveness. The first subprogramme on the list is the 'Automotive industry' — it places special emphasis on import substitution. One of the subprogramme's measures suggests protecting the Russian market from importing new and used cars. The proportion of imports in monetary terms should decrease from 60 to 20%. The Saint Petersburg automotive cluster, which arouses great hopes, should play a major role in import substitution. This will require maximum localisation of automotive component manufacturing. The 'production of motor car and engine components' is identified as an important substitution priority for Saint Petersburg.

Saint Petersburg may become home to other hi-tech clusters oriented to external markets. However, all efforts aimed to change the traditional imports-centred model of development to an export-oriented one requires coordinated action from the government of Saint Petersburg and the business community. Such action should be included in the Governmental Programme for International Trade Development until 2030.

### **Information support for international trade**

One of the key conditions for improving the business environment is the information and consulting support for the international trade of economic agents. This is stated explicitly in the governmental Programme for the Development of International Trade. The subprogramme titled Creating a National System for the Support for International Trade requires Russian regions to not only develop programmes for international trade development but also provide infrastructure support for export-oriented small and medium enterprises and create and promote regional information resources for international trade agents. Article 13 of the federal law On Industry Development stressed the need for information and consulting support for municipalities. This includes compiling business directories with legal, economic, and technological information necessary for entrepreneurs, organising business conferences, and publishing necessary information materials online.

Missions of Russian regions abroad may play an important role in this process. The federal law On Coordinating International Economic Relations of Russian Regions grants regions the right to open missions abroad. However, the development of regional missions abroad has not been properly studied so far. As of January 1, 2015, Saint Petersburg was the only Russian

region to have a mission abroad. In view of the new requirements for developing regions' international trade, it is important to strengthen the role of regional missions by establishing regional business information centres (further, BIC) abroad. Saint Petersburg has accumulated significant experience in this field. Twenty-one BICs have been established abroad — in Armenia, Australia, the UK, Germany, Israel, Italy, Kazakhstan, the US, Finland, France, and other countries. The centres function with varying degrees of success due to their unclear legal status, financing mechanisms, and functional significance. Apparently, regional BICs abroad can assume the functions of information and analytical centres for international trade and monitor the business climate in Russia and partner countries. These circumstances were considered in methodological recommendations for creating and developing a network of regional BICs abroad. The authors of this article took part in preparing the recommendations, which were approved by experts from the Russian Export Centre.

In the future, BICs can develop into regional offices of Russian trading houses abroad as independent legal persons or as branches of the Russian Export Centre.

## Conclusions

1. The concept of territorial competitiveness is not accepted unanimously among experts. Attempts have been made to incorporate indicators, econometric models, and regional competitiveness rankings based on the proposed statistical expert recommendations from international agencies into relevant studies. However, their findings do not provide a framework for administrative decisions at the regional level. This is merely a subjective assessment, which may be taken as a signal for the transformation of a regional economy. For most Russian regions — most of which live off federal budget transfers, — enhancing competitiveness is not an urgent problem.

2. In the current economic situation, one of the key criteria for territorial competition is a region's international trade potential, which can shift the balance between export-oriented oil and mineral companies and those exporting products with a high value added. This requires detecting all the opportunities for developing regional international trade potential, namely, analysing geopolitical and economic geographical factors and the financial, institutional, and innovative environment. The effect of these factors has not been studied either practically or theoretically.

3. An analysis of Saint Petersburg's export and import structure shows that the city performs accidental functions by focusing its exports on raw materials rather than hi-tech produce. However, mechanical engineering and science were somewhat of the city's brand until recently. Various destructive factors have resulted in insufficient geographical and goods diversity of the city's exports, underexploited research, educational, cultural, and historical potential, and weaker trade and economic ties with the Baltic region states.

However, these problems cannot be solved even in the near future. There is a need for a conceptual revision of Saint-Petersburg's international trade for a long-term perspective.

4. Saint Petersburg is a city of world significance. Its competitive advantages in economic, cultural, and social aspects are evident. However, they have to be integrated into the structure of exports and imports relations. There is also a need for the forced development of import substitution production and promoting the city's business reputation in world markets. This requires a package of consistent measures presented in the Governmental Programme for Saint-Petersburg's International Trade for a Long-term Perspective. This programme should be integrated into the Strategy for the Socioeconomic Development of the City until 2030. As a result, the international trade potential will increase.

5. The federal legislation expands significantly the international trade functions of Russian regions. Special attention is paid to creating organisational and information resources for export-oriented companies and establishing regional exporters' alliances for the business community to produce a common position on the development of international trade. In such a case, the role of trade missions abroad and their regional business information centres should be strengthened. Their activities should be in line with the development programme of the Russian Export Centre. A single methodological approach to planning, organisation, image promotion, financing, and interactions with the Russian Export Centre should be applied.

6. Creating a single information system to support the international trade of not only Saint Petersburg but also other Russian regions is a major factor in enhancing competitiveness. It is critically important to create and develop a regional information system abroad.

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