

1.2 STRATEGIC PLANNING SYSTEM

1.2.1 Strategic Goals and Objectives, General Principles of Karelia Development

The strategic goal of the Republic of Karelia is a continued improvement of quality of life of the people on the base of sustainable, balanced development of economy and active involvement in the system of international and interregional exchange.

Sustainable development is based on the following guiding principles:

- social reproduction of population;
- cost-effectiveness of the economy;
- spatial territorial stability;
- unified state economic strategy at federal and regional levels.

In order to achieve strategic goals, following objectives have been set:

- Strengthening of Republic position as the north-west outpost of Russia.
- Developing cross-border relationships on the base of Russian-European intercultural communications.
- Developing traditional and innovation sectors with consideration of global economic trends.
- Improving spatial organization of the republic, concentration and allocation of resources of the future over the territory
- Creating conditions for enhancing investment attractiveness and business activities.
- Developing effective land and real property market.
- Increasing social potential of the regional community.
- Developing civil society and establishing a system of public-private partnerships.
- Improving public administration system for Republic's economic and social development.

So as to provide the achievement of the declared goal – high life standards of the region's population – it is necessary to significantly increase both labor productivity and capital efficiency. In the light of present-day trends and changes in development patterns (clusters, "growth points" and "development corridors" instead of traditional industries and steadily developing districts), **the general idea** of regional development was formulated as follows:

- ⇒ Karelia **of today** is a platform for Russian raw materials development by western business;
- ⇒ Karelia **of tomorrow** is the territory of cultural interaction for development of effective partnerships between Russia and Northern Europe

This idea is the base of the Strategy with main stipulation of the turn to cluster economy based on cooperation between science, business and the state.

1.2.2 The System of Strategic and Program Documents

Long-term management of Karelia social and economic development is based on the system of strategic and program documents, which are main elements of republican strategic planning system (see Fig. 1.11). The following documents were developed in the republic:

- The Concept of Karelia Social and Economic Development up to 2010 and the revised version the Concept of Karelia Social and Economic Development up to 2012.
- The General Scheme of Karelia Development up to 2025.
- The Strategy of Karelia Social and Economic Development up to 2020.
- Medium-Term Programs of Karelia Social and Economic Development for 2007-2010
- Strategic plans and development programs for all 18 municipalities and cities.
- Republican specific sectoral and intersectoral programs (at present, 26 programs are being implemented)

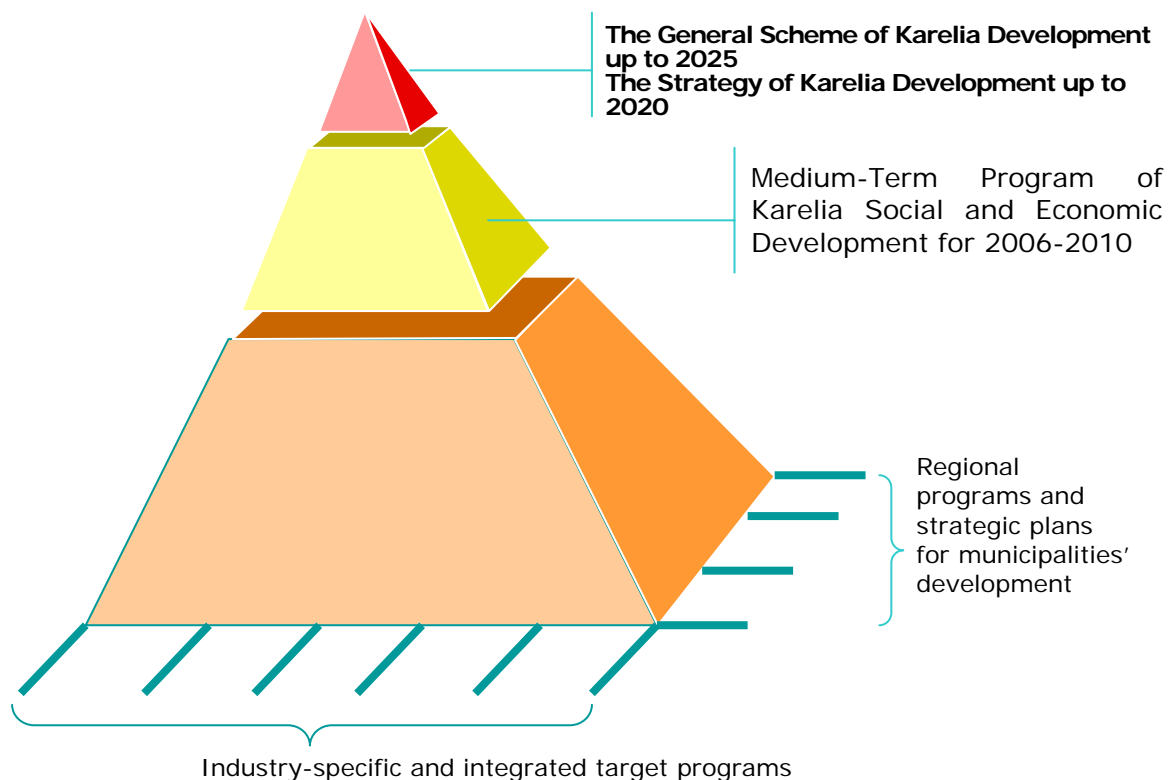


Fig. 1.11 The system of planning documents

1.2.3 Development Scenarios of the Republic of Karelia

On the base of long-term forecasts of socioeconomic development and the promotion of the region's involvement in external production chains and cultural values, three development scenarios were developed in the framework of implementation of the Strategy of Karelia Social and Economic Development up to 2020: inertial, investment and innovation (see Fig. 1.12).

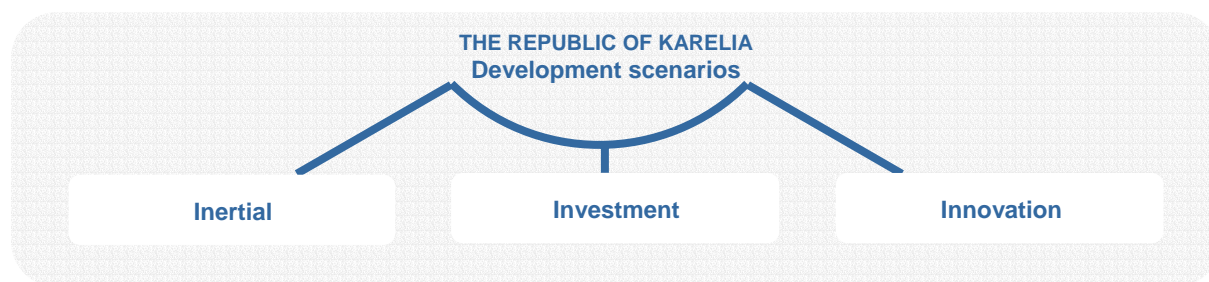


Fig. 1.12 Development scenarios of the Republic of Karelia

Inertial scenario

Extensive increase of the output of main export products would be the source of GRP growth. The scenario enables to maintain the GRP growth, but is not sufficient to raise competitiveness and therefore should result in Karelia lagging behind the neighboring Russian and foreign regions. The inertial approach is based on the adapting the territorial-industrial structure - that was formed in the soviet period - to the requirements of the global market and retaining the raw materials orientation.

Investment scenario ("catch-up development")

This scenario involves technological modernization of the existing industrial plants and implementation of new investment projects. According to the scenario, the major driving forces of the region's development are the following external factors:

- Increasing the frontier economic importance
- Realization the region's transit opportunities.
- The Russian Federation's entry into the WTO and its further activities
- Increasing foreign trade turnover and gradually changing its goods composition towards a greater role of Karelian technology industries.

The scenario has its transaction costs, as it would not result to dramatic raise in competitiveness. The purchase of expensive modern technologies and equipment would not provide a qualitative increase of labor productivity, capital efficiency and competitiveness. It would merely somewhat slacken the pace of lagging behind highly-developed regions.

Innovation scenario ("post-industrial development")

This scenario is designed for generating a new economy which would be based on knowledge and post-industrial sources of development. Knowledge, and first of all research knowledge, is the main unexpendable source of economic development. The scenario suggests investment into human capital, increase of the consumption share of the budget, territorial marketing; brands development; high-priority development of science, education and health care.

1.2.4 Strategic Priorities of the Regional Development

The Social and Economic Development Concept "Karelia Revival" and the Strategy for Karelia Social and Economic Development up to 2020 determine priorities of republic's medium- and long-term development (see Fig. 1.13).

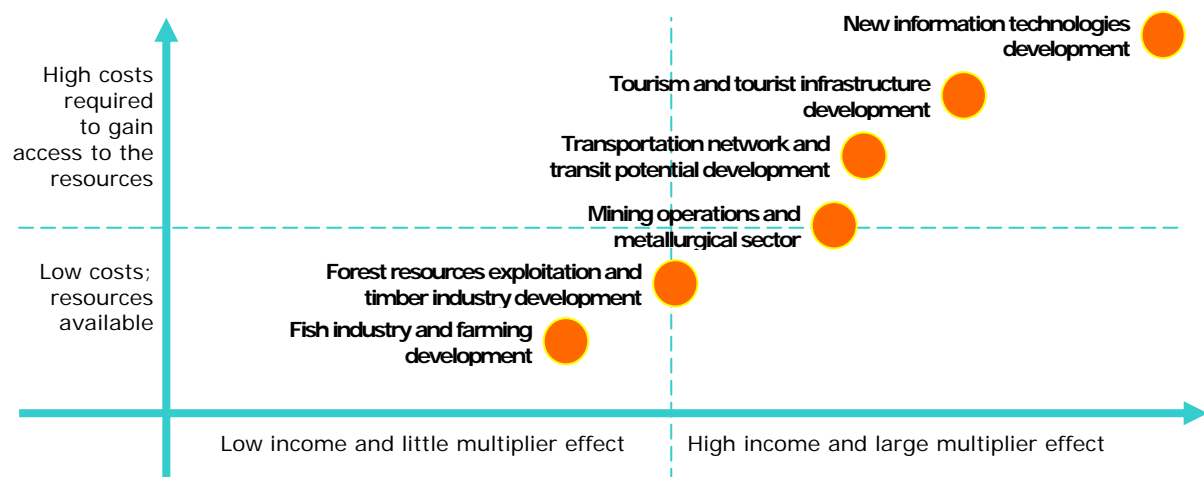


Fig. 1.13 Strategic development priorities

In order to optimize the allocation of the resources, the mentioned priorities must be assessed in terms of implementation costs (operating, investment and capital outlays) and revenues (benefits).