

## **Russian strategy for the Development of Russian Far East Region and Cooperation with Northeast Asian Countries**

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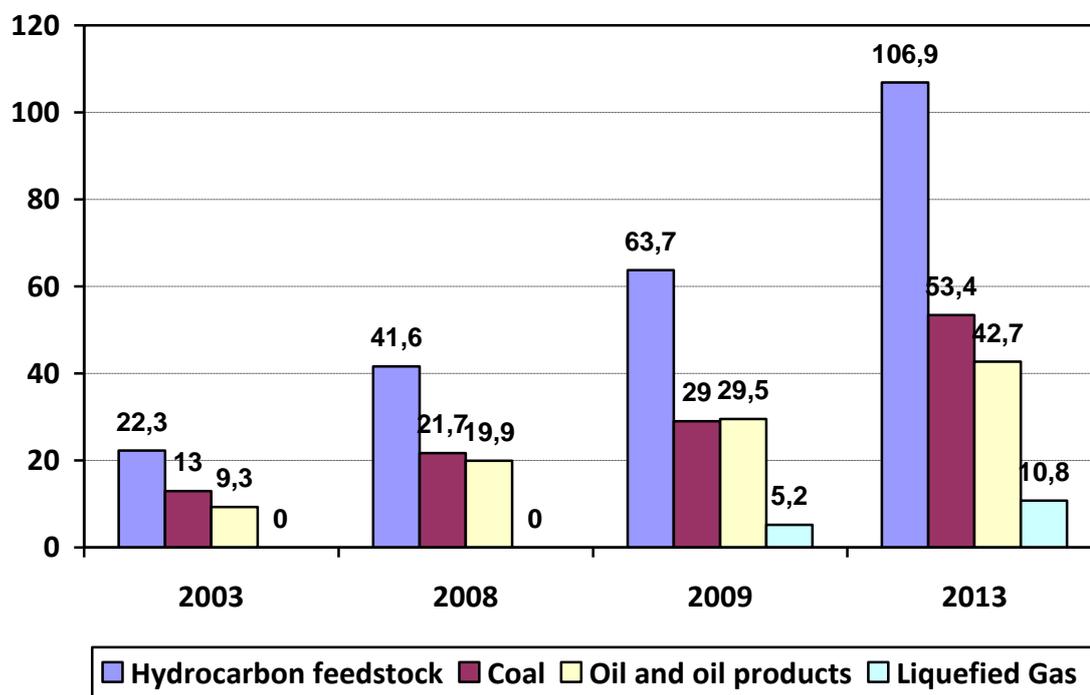
Development Strategy of the Russian Federation until 2025 has special emphasis focused on strengthening the implementation of national economic interests at the Asia-Pacific Region in the near future. Definitely, the main strategic plan is to change the principal priority of the Russian economy in Europe and the East, which is clearly evidenced in recent years by political and economic initiatives of President Vladimir Putin and his team.

Such a significant shift of Russia's development strategy vector has both objective and subjective prerequisites.

The first group should include the necessity to maintain achieved scale of the Russian coal, oil, natural gas and electricity production and export. Export potential of these resources in the long term will increase due to deposits and hydroelectric power plants at the eastern regions of Russia, where, as it is well known, the population, and industrial production for the last 25 years of social reforms has significantly decreased.

At the same time, the demand for hydrocarbons and electricity in Asia Pacific Region, especially in Japan, China and the Republic of Korea. It is should be noting that in 2013, exports of Russian coal through the ports of the Russian Far East was 53.4 million tons, 42.7 million tons of crude oil and petroleum products, 10.8 million tons of liquefied natural gas. This is almost 5 times more than figures of 2003. (see Fig. 1). In the same 2013, by the existing power line at the Amur region, it was exported 3.9 billion KWh of electricity to the PRC and Mongolia.

**Fig. 1 Dynamics of hydrocarbons' export from Russia to the Asia-Pacific Region through the ports of the Russian Far East (mil. t.)**



To be fair, significant dependence of Russian eastern regions from imported goods (food, clothing, shoes, building materials, automobiles, ships, electronic home appliances, etc.) from China, Korea, Japan and other Pacific Rim countries should be recognized.

As for subjective prerequisites, the main power now is sanctions regime enforced by USA and EU against the Russian Federation.

Thus, the vector of the East to the Russian political and economic policies can be considered quite expected, justified and appropriate. Moreover, Russia plays the role of integrator between two transport systems: European and Asian. As well as an important mission of sustainable mutually beneficial partnership with the highly developed economies of Japan, Republic of Korea and China, and in the same time recently fast-growing economies such as Vietnam, Malaysia, Indonesia and other countries.

The strategic vision for China, Japan and the Republic of Korea in the context of their integration capabilities can establish a new way of development in North-East Asia. Reveal additional resources for the formation of a unified

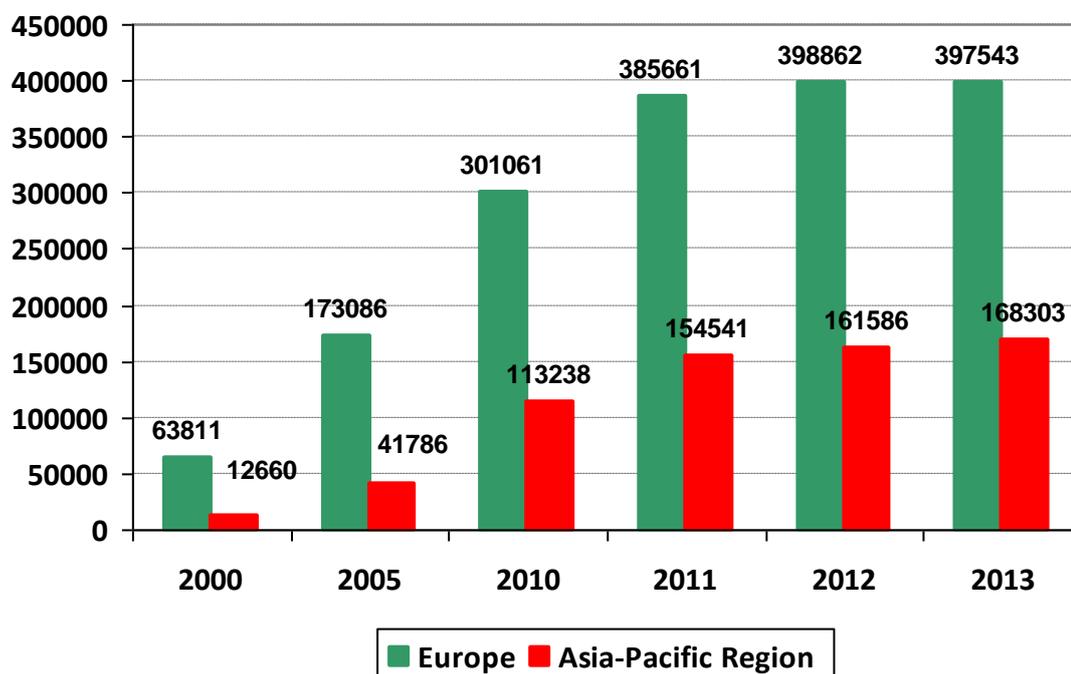
economic space which are capable to cooperate as equal partner and to compete with the EU and NAFTA.

These countries had shown great interest in active participation at the WTO and expect to play a role in the establishing new rules for the game at the world markets. No less serious and offensive is their attitude towards the regional and subregional economic institutions as APEC and ASEAN. As for China, there is one more important strategic facet of the international integration and interaction - the Shanghai Cooperation Organization.

Proceeding from designated strategic perspective, the vector of development for Russia in the East reinforces the need for its participation in the integration process with the APR countries, primarily China, Korea and Japan.

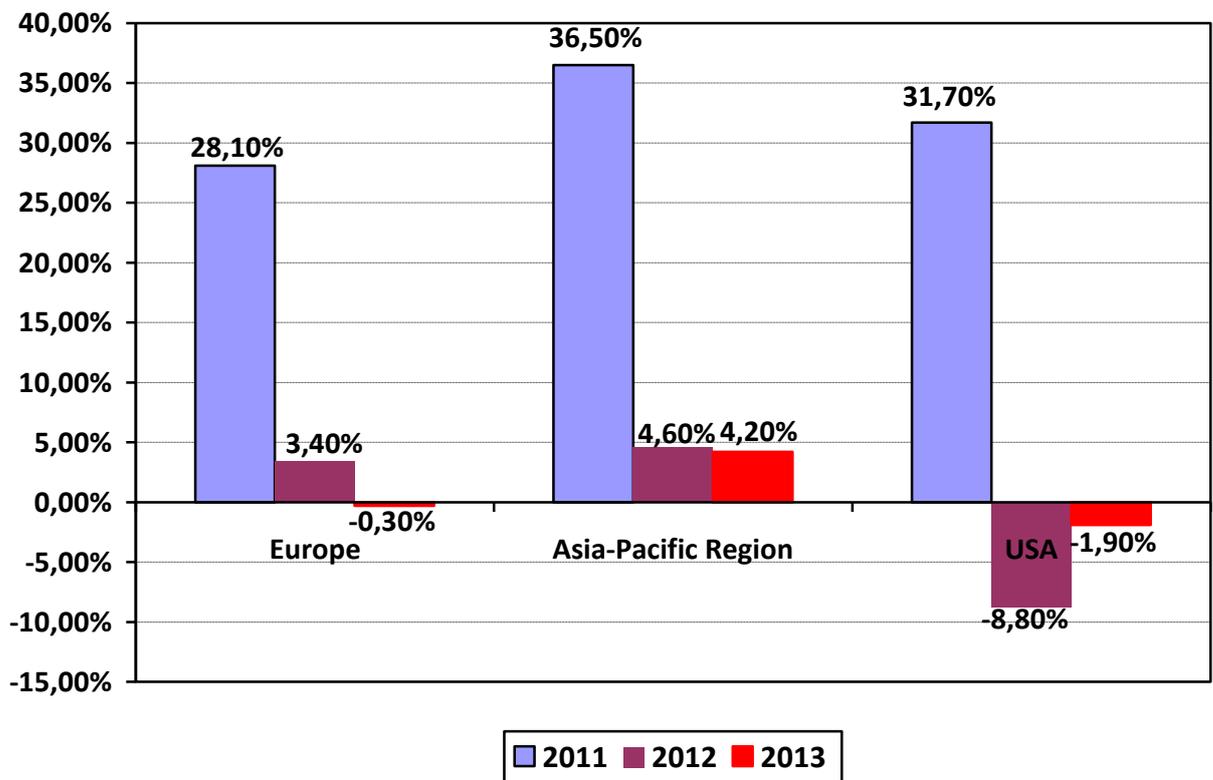
Taking into account the trends in international trade, economic and investment cooperation and current involvement in the process of Russia's new strategic setting of the Russian President to "turn to the Asia-Pacific Region" is the task of truly large-scale efforts. The comparative dynamics of foreign trade shows that while for Russia are predominant export-import relations with Europe, the volume of which in 2013 was almost 2.4 times higher than with the APR. It should be noted that in 2005 the excess was more significant, which confirms the upcoming change of Russian trade priorities with Europe and the East (see Fig. 2).

**Fig. 2 Russian Foreign Trade (mil. USD)**



This is evidenced also by the dynamics of Russia's foreign trade index, which in the past 3 years, significantly higher in the East than in Europe. The most significant influence to changes in recent years was made by trade and economic relations between Russia with the above mentioned countries: China, Republic of Korea and Japan. (see Fig. 3)

**Fig. 3 Foreign Trade Index of Russian Federation**  
(% to the previous year)



In the international investment cooperation Russia also is much more integrated with Europe than with Asia Pacific countries. In particular, the results of 2013 European investments in the Russian economy is almost 100 times higher than Asian. Investment of Russia in the European sector were 33 times more than in Asia (see Table. 1, Table. 2)

**Table 1. Foreign Investments in Russian Federation (mil. USD)**

	2007	2008	2009	2010	2011	2012	2013	2007 - 2013
Europe	33 789	44 727	19 412	33 821	41 900	41 115	63 659	188%
APR	339	521	947	1 465	364	1 800	644	189%
USA	1 860	2 161	2 296	435	276	285	456	24,5%

**Table 2. Foreign Investments of Russian Residents (mil. USD)**

	2007	2008	2009	2010	2011	2012	2013	2007 - 2013
Europe	34 911	36 333	31 896	37 967	45 859	33 136	23 399	67%
APR	90	113	128	350	450	1 732	703	781%
USA	973	7 264	1 634	1 060	1 625	688	763	78%

These data may explain the need to create in relatively short period qualitatively new conditions for active involvement of Russian Far East, resource-rich and strategically located region, in the integration processes between Russia and APR.

It is the key task is the basis for Strategy of socio-economic development of the Far East and Baikal region until 2025.

To the development of the Strategy were involved institutes of the Russian Academy of Sciences, as well as branch industry institutes and projecting organizations of the Russian Far East. To obtain baseline information, widely concerned apparatus of federal and regional authorities and public corporations. Working groups were formed of representatives of ministries and departments: Ministry o Foreign Affairs, Federal Security Service, Federal Migration Service, Foreign Intelligence Service, etc. Security got there the reflection along with the

issues of the economy. The project was used as a basis by the Government of the Russian Federation and held public hearings in all regions of the action.

With some modifications from the Ministry of Regional Development the Strategy was approved by the Government of the Russian Federation at December 28, 2009.

In 2012, the Federal Center took new institutional arrangements for the development of the Russian Far East. The Ministry of Far East Development was created, and it was headed by the former governor of the Khabarovsk Territory, Viktor Ishayev. As well as a branch of Russian Direct Investment Fund for the Far East and the Baikal region. The one of the main objectives for new ministry of has been seen as the development and implementation of the state program "Economic and social development of the Far East and the Baikal region for the period until 2018" and "Socio-economic development of the Kuril Islands (Sakhalin Region) for 2007-2015", which was approved government of Russia March 29, 2013. In these documents, the main emphasis was placed on the following:

- creating conditions for the accelerated development of the Russian Far East, turning it into a competitive region with diversified economies, dominating by high-tech industries with high added value;
- radical improvement of the socio-demographic situation in the Far East and the Baikal region, the creation of conditions to reduce the outflow of population and migration growth to ensure the predominance of skilled professionals;

At November 29, 2012 President Vladimir Putin at the session of the State Council Presidium for an issue of the Russian Far East and Baikal region development formulated the problem as the conclusion of these regions to the economic leaders of Russia through the implementation of major investment projects here. In this case, emphasis was placed on balanced development, rather than on the production and export of the region's natural resources. The main attention was paid to the creation of the Far East and Baikal region is not just favorable, but the special conditions for business, namely:

- zero rate for federal part of the income tax for the first 10 years of the newly established industrial enterprises with an investment of not less than 500 million RUR;
- exemption from tax on the extraction of solid minerals with total investment not less than 500 million RUR;
- enabling regional authorities to introduce a zero rate of income tax to replace the existing incentives to reduce it by 4.5%;
- capital increase of the direct investment fund for Far East and Baikal region development up to 15 billion RUR. Support of investment projects on public-private partnership with the subsequent increase of the fund to 100 billion RUR in case its operate effectively;

At the session of the Russian Government, February 5, 2014, it was decided to create a unified system of the following institutions of the region for the purpose of advancing the social and economic growth:

- OJSC "Dalniy Vostok" (Far East), participating in the creation and management of territories advancing socio-economic development;
- Agency for Far East Investment and Export Promotion, carrying out promotion activities for investment and foreign trade at the Russian Far East;
- Agency for Development of Human capital, arranging to provide investors with the necessary expertise, including through training and attracting new residents to Far East Region;
- JSC "Fond razvitiya Dalnego Vostoka i Baikalskogo regiona" (Fund for the Development of the Far East and the Baikal region), participating in the infrastructure projects for advancing socio-economic development of the territories' residents financing. This fund is the branch of Russia state "Vnesheconombank", investing in national industrial projects

Spring 2014, a new structure of the Ministry of Far East Development, headed by Alexander Galusko again analyzed more than 400 investment projects,

has selected 23 of the most effective and 16 of them that were particularly ready for practical implementation by exact private investors.

Corrected national program "Socio-economic development of the Far East and the Baikal Region" approved by the Government of Russia April 15, 2014 provides for the allocation from the federal budget for 2014-2020 in the amount of 9.7 billion. USD. The amount is reduced by 11 times in compare to the previous version. The ratio of state and private investment component is radically different compared to past programs, in favor of private one.

Thus, the success of the Strategy for Socio-Economic Development of the Russian Far East implementation is largely associated with the investment cooperation with business entities of Asia-Pacific countries. The positive experience of such cooperation is already there.

Recent years, in various regions of the Russian Far East realizing investment projects in the timber, fishing, automotive and appliance industries, hotels and restaurants, agriculture, science and other spheres, involving China, Korea, Japan and other countries.

Particularly, in Vladivostok displayed a full capacity automobile assembly enterprise "Sollers", a new venture for the assembly of "Mazda" cars, a plant of energy-saving equipment "Hyundai", etc.

Currently only at Primorsky region discussed following large-scale projects:

- The Special Economic Zone for industrial development at the "Sollers" plant. Implementation – 2016. Planned allocation – 11 billion RUR.
- Petrochemical complex in the Partizanskiy district of Primorkiy region. Cost of the project – 1200 billion RUR. Implementation period 2014 – 2028. Investor – OJSC "Rosneft".
- Liquefied natural gas complex in the Khasan district. Project cost - 685 billion RUR. Planned start start (1st and 2nd line) – 2018. Investor – OJSC "Gazprom".

- Mineral fertilizers plant in Nakhodka. Cost – 400 billion RUR. Planned start of the first stage – 2019. Investor – CJSC "National Chemical Group" (Natsionalnaya Khimicheskaya Gruppya).
- Coal terminal in Shkotovsky area. Project cost – 18 billion RUR. The investor – CJSC "Siberian Business Union" (Sibirskiy Delovoy Soyuz).
- Shipbuilding cluster. OJSC "Far Eastern Center of Shipbuilding and Ship Repair." A consortium formed by the JSC "Gazprombank" and OJSC "Rosneft"

Significant scope of international cooperation issues for the development of the Russian Far East are defined in a recent official visits of President Vladimir Putin to Vietnam (November 2012), Republic of Korea (November 2013) and China (May 2014).

Especially large-scale projects have been discussed during the visit of the President of Russia in China, where the principal vector of economic cooperation defined sharing of Russian deposits of hydrocarbons, especially oil and natural gas. Signed contracts must ensure the creation of a powerful gas pipeline system from Eastern Siberia to China and Primorsky region to the projecting site of the LNG complex till 2018.

It should be noted that the most rapidly developing economic cooperation there is between the Russian Far East and the Republic of Korea. Even before the recent visit of President Vladimir Putin to Seoul, at holding annually Russian-Korean economic congresses were discussed promising investment projects in all Russian Far Eastern regions. Particular attention was paid to the development of Russian-Korean cooperation in energy, logistics, agriculture, the protection of the environment, technology and innovation development.

On the initiative and with the financial support of the Consul General of the Republic of Korea in Vladivostok, was prepared and published in Seoul "Guide for foreign investors at the Russian Far East", which shows all available legal and economic conditions for doing business in the region.

In summary, we can make a reasonable conclusion about the attention of the Government of Russia to the accelerated development of the Russian Far East regions due to the need for the Russian economy to be integrated robustly in a system of economic relations in the Asia - Pacific Region, which has undoubted potential to become the locomotive for the world economy in coming decades.