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**Contemporary Status and Prospective of Economies
in Transition in Russian Far East**

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[1] The Economy of the Russian Federation and Russian Far East.

Russian Far East (RFE) occupies the eastern part of the Russian territory and is situated almost in the center of the Asian region. The RFE which has a total area of more than 6.22 million sq. km (36.4% of Russia in all) is composed of Republic of SAHA (Yakutia), Jewish Autonomous Region, Chukot Autonomous Territory, Primorski Region, Khabarovsk Region, Amur Territory, Kamchatka Territory, Magadan Territory, and Sakhalin Territory. The population of the RFE reached its highest level of 8.06 million in 1991 and then dropped to 7.42 million estimated as of January, 1997, that is approx. only 5% of the total population of the Russian Federation which is 147.5 million.

The population density is about 1.2 persons per sq. km compared to 8.6 which is the overall density of Russia. This indicates a substantial lack in labor forces required for regional economic development. The high wage rates in the RFE inherited from the Soviet period, have raised significantly output costs, and therefore lowered international competitiveness of production.

Table 1 Growth Rate of Population in Russian Far East (%)

	1981~1985	1986~1990	1991	1992	1993	1994	1995	1996
Russian Federation	0.7	0.7	0.1	-0.1	-0.2	-0.1	-0.2	-0.3
Russian Far East	1.6	1.2	-0.3	-1.7	-1.4	-2.1	-1.6	-1.1

(Russian Statistical State Committee [Russian Regions] No.2, 1997)

After the Russian revolution, the RFE part became independent from European Russia, and began to pursue its own economic development. At the time approx. 30% of the gross production of the region was dependent on foreign trade within the Asian area, and the primary items were

timber, gold, and fishery goods.

Beginning from 1930 under active state policy RFE experienced rapid industrialization (mainly military industry was developed), and high economic growth. At the time more than 75% of the industrial output of the RFE was consumed within the Soviet Union while only 5% was exported. That means that the relationships between RFE and the rest of the Soviet Union strengthened, but those with Asia were weakened.

After 1992 the economy of the RFE changed once again. I.e., the relations between RFE and the European part of Russia weakened and the importance of relations with Asia Pacific has grown. As for internal factors the following wages can be considered: (1) 'Moscow centralism' and disrespect of the regional economies, (2) High wage rates in the RFE, compared to the rest of Russia. For example, in 1997 wages in the RFE were 169% of the average level in Russia, (3) High electric power energy costs. During 1992-97 production price increased up to 8,500 times in Russia, and the increase of energy price in RFE was during the same time 15,000 times, (4) Price liberalization raised transportation costs. Transportation leg between RFE and European Russia exceeds 5,000 km. For example, delivery costs of the raw materials, brought from Siberia are almost equal to producers price, and petrol is cheaper if imported from Japan, rather than from Siberia, (5) Special Central Government subsidies, provided to control price distortions, were cut off from 1992. In addition to domestic factors the following causes made economic cooperation between the RFE and the Asia Pacific countries more preferable than between the RFE and the European Russia:

- (1) Economic development of Asia Pacific countries,
- (2) End of Cold War,
- (3) Attractiveness of the RFE natural resources to Asian countries.

Nowadays approx. 73% of the RFE industrial output is consumed within the RFE area, 13% exported to European Russia, and the remaining 14% exported to Asia Pacific.

[2] The Economy status of the Far East.

Table 2 Growth Rate of Industrial Production of Russian Federation and Russian Far East (%)

	1990	1991	1992	1993	1994	1995	1996	1997
Russian Federation	-0.1	-0.8	-18.0	-14.1	-20.9	-3.0	-4.0	1.9
Russian Far East	-2.0	-2.7	-15.2	-12.3	-22.8	-18.0	-13.0	-8.1
SAHA (Yakutia) Rep.	1.0	-2.4	-20.2	-3.9	0.4	-0.4	1.0	-4.2
Jewish Autonomous Region	4.0	-5.0	-24.0	-33.3	-29.0	-39.0	-24.0	-7.3
Primorski Region	-1.8	-3.7	-6.9	-11.8	-29.3	-0.7	-9.0	-5.6
Khabarovsk Region	-2.1	-1.2	-13.6	-18.2	-41.5	-19.0	-14.0	-6.5
Amur Region	0.5	-6.4	-17.3	-7.4	-22.9	-15.0	-23.0	-5.5
Kamchatka Region	0.3	-7.9	-26.9	-6.5	-30.8	8.0	0.2	-6.9
Magadan Region	-4.9	-3.1	-8.1	-10.6	-11.6	-14.0	-13.0	-13.0
Sakhalin Region	-7.2	3.1	-21.8	-26.9	-10.0	9.0	-16.0	-11.8

(Russian Statistical State Committee 「Russian Industries」 1996,1997)

As the Russian economy, all economy of the RFE also experienced a sharp decline beginning from 1992. Although, the degree of drop seized some way in Russia, but remained high in the RFE. In 1997 industrial production index turned positive in the Russian Federation, while the RFE had a negative growth of 8.1%.

Table 3 shows decline in industrial production in the RFE.

Table 3 Equipment Manufacturing in the Russian Far East Regions

	1991	1992	1993	1994	1995	1996	1997
Cranetools in Khabarovsk	-	538	243	97	71	62	36
Lumber Machines Primorski Region	2702	2780	656	61	147	13	-
Power Press in Amur	744	559	419	60	24	2	-
Washing Machines in Primorski	133500	83800	64000	16400	2700	1000	40

(Japan Association for Trade with Russia & Central-Eastern Europe
「Russian Far East Data Book」 1992-98.)

Next, Table 4 displays industrial production, grouped by type.

Table 4 Weights of Types of Industries in the Russian Federation and the Russian Far East

(1995, %)

	Electric Power	Fuel	Steel	Non-ferrous Metals	Petroleum products
Russian Federation	13.5	16.4	9.1	6.5	7.5
Russian Far East	19.3	10.5	0.5	20.7	0.7

	Machinery	Wooden products	Construction products	Light industry	Food
Russian Federation	17.9	5.1	4.8	2.5	12.1
Russian Far East	8.5	5.4	4.0	0.6	25.3

(Russian Statistical State Committee

[Russian Statistical Year Book] 1994,95)

The primary industrial products in the RFE are non-ferrous metals and processed food, that is different from the rest of Russia. Supposedly, among the causes of the economic slump in the RFE there are those that also come the same in the whole of Russia. The following main factors that are considered to be unique for the RFE are examined.

- (1) Decline in defense purchasing due to the end of the Cold War. Industry production in the RFE was primarily military oriented, and the total output accordingly dropped.
- (2) Transformation of military production into non-military use was not successful. Special governmental subsidies for the transformation program were filled out only for 10%. Companies failed to obtain resources to comply reconstruction without external help.
- (3) As it was pointed out, products of the RFE had no competitive power not only in the domestic market but also in the international market due to high cost.
- (4) Import of more competitive consumer goods from China, Rep. of Korea, Japan, USA, Australia.
- (5) Poor of economical environment for foreign investment, especially regarding infrastructure and legislation, if compared to Central Russia.

- (6) Effectiveness of foreign investment is higher into neighboring East and South- East Asian countries than into the RFE.
- (7) Primary import items were consumer goods instead of equipment, that could be used as important mean for industrial development and potentially accumulating foreign assets.
- (8) Policy intended to improve the quality of industrial structure has not received a high priority. For example, after Central Government subsidies were cut off, for a long period foreign trade of RFE was oriented to export primary products and import consumer goods.
- (9) Collisions between Central and Local Governments.
- (10) Decline of population.

[3] Outline of the Russian Far East foreign trade.

Table 5 Russian Far East major foreign trade partners (US\$ million)

	Export		Import	
	Total (US\$ million)	%	Total (US\$ million)	%
Japan	1,037	36.6	160	9.2
China	707	25.0	219	12.6
Rep of Korea	329	11.6	307	17.7
USA	128	4.5	413	23.8
Vietnam	38	1.4	19	1.1
Hong Kong	35	1.2	2	0.1
Taiwan	30	1.0	2	0.1
Germany	21	0.7	58	3.3
Singapore	21	0.7	54	3.1
Canada	6	0.2	21	1.2
Australia	1	0.0	21	1.2

(Statistical Data of the Russian Far East Local Governments, 1997.)

Major destinations of the RFE export are Japan, China, Rep. of Korea, USA. The RFE maintains its import mostly from USA, Rep. of Korea, China and Japan. Major export items are: raw materials, fish, timber and wood products. There is also occasionally export of armament and combat equipment. At the same time consumer goods as food,

wear, used cars and fuel compose the base of the imports.

Due to lack of reliable statistic data on the economy of the RFE in all, the foreign trade pattern for the Primorski Region will be examined as an example. Also it will be compared with, the Russian Federation and China. China has successful experience of developing economy in transition.

First, let us look at the shares of export-import in GDP. As follows from Fig. 1, Chinese export is leveled-off at about 20% of GDP. In the case of Russia and Primorski Region there is high fluctuation. In 1993 export/GDP ratio for Primorski Region was lower than in China and Russia. The same situation can be seen from Fig. 2 that shows import/GDP ratio: China is maintaining stable level, Russia and the RFE deviates year from year. Excepting 1995, the RFE has lower ratio than both China and Russia. This indicates that the foreign trade is underdeveloped. Again, as the Primorski Region is the closest Russian area to Asia Pacific, it might be supposed the rest of RFE also has underdeveloped foreign trade.

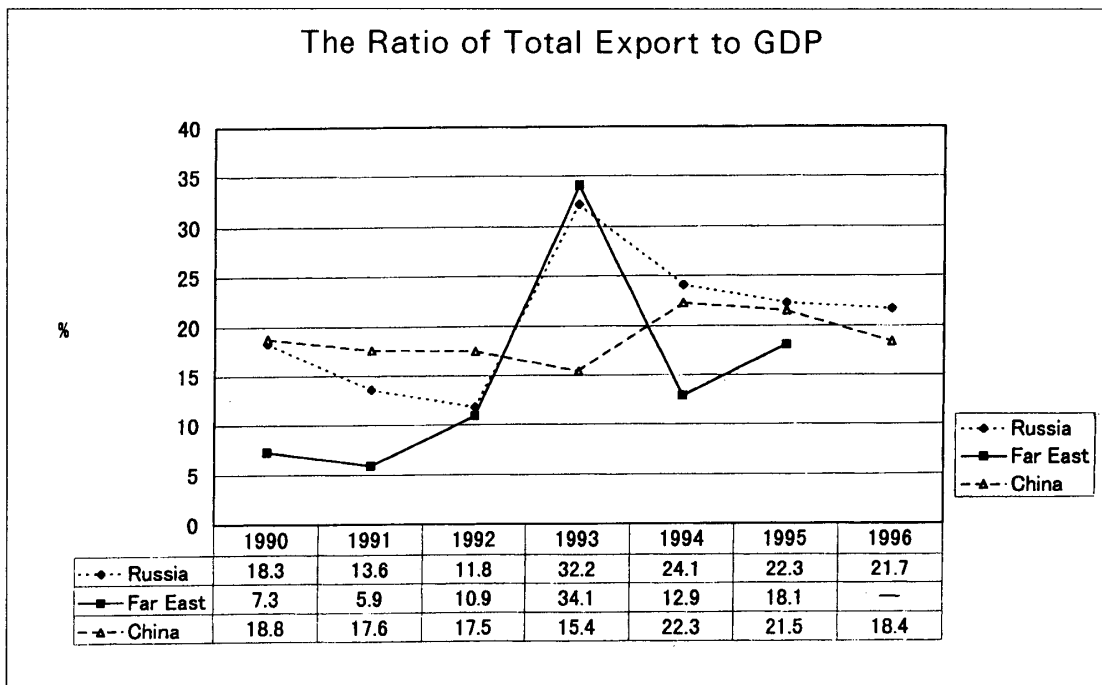


Figure 1

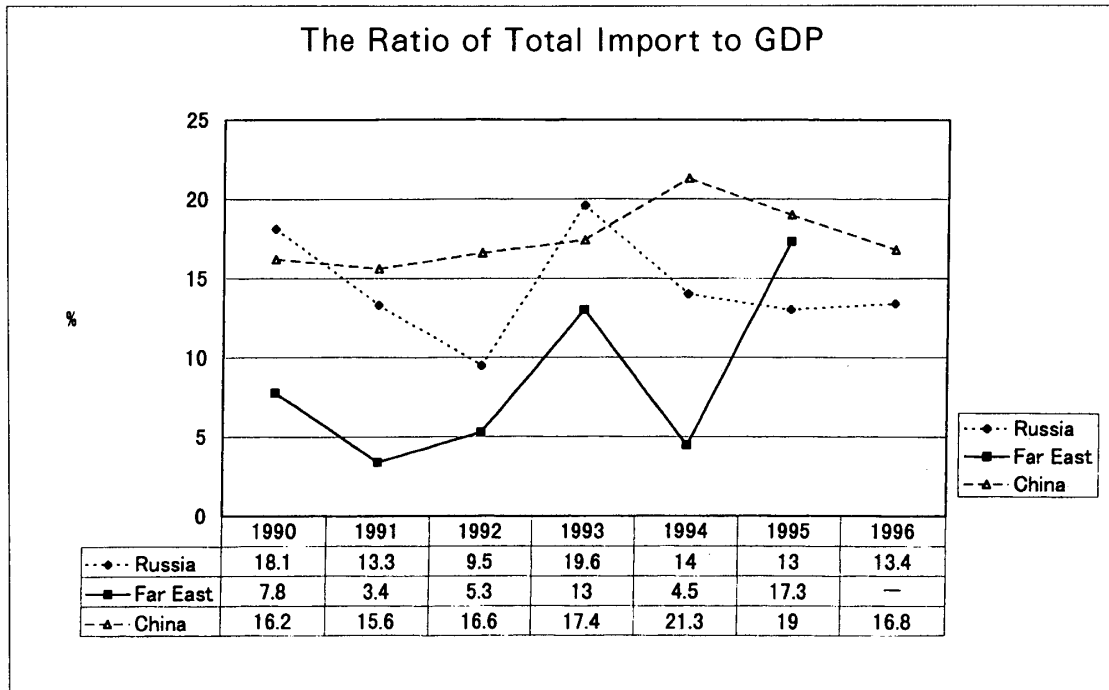


Figure 2

Next, we shall examine the ratios of primary and value-added goods. This is shown in Fig. 3 (net primary goods import/net value-added goods export). The higher the ratio the more the country exports primary goods. The Chinese ratio is always less than 1, whilst Russian and Primorski are not stable and high. Especially, in 1994-95 the export of primary goods from the Primorski Region was high. Fig. 4 displays primary goods/value-added goods ratio in the import. China has significantly low values less than 0.23, and the ratio of Primorski Region is slowly decreasing. Compared with China, it is still importing and exporting a lot of primary goods.

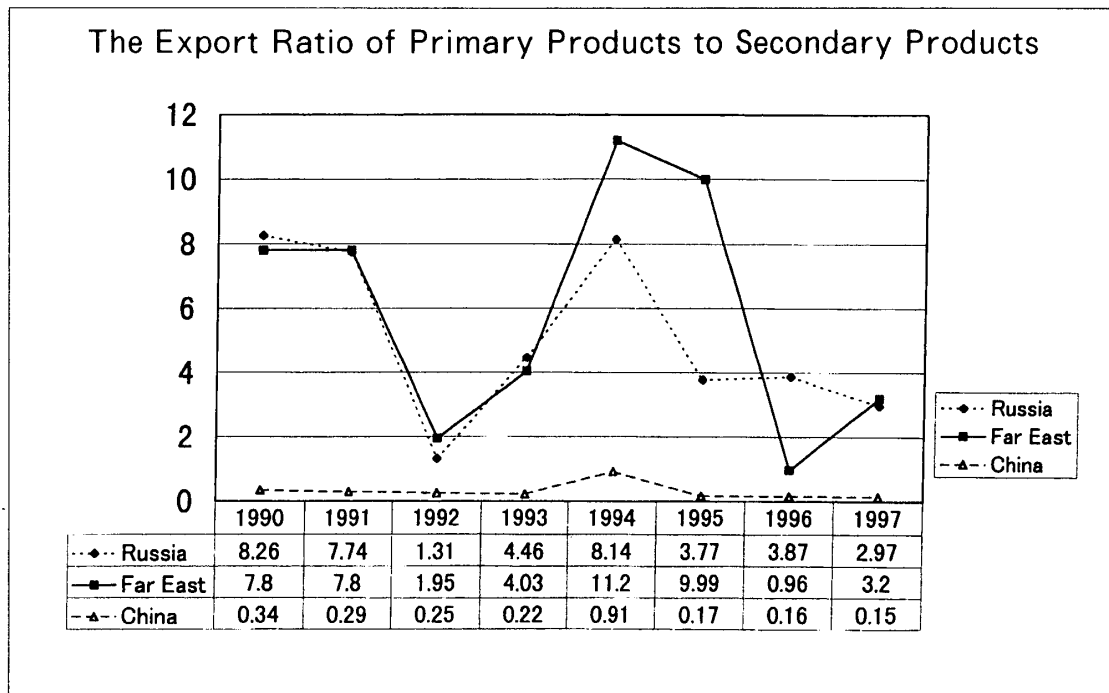


Figure 3

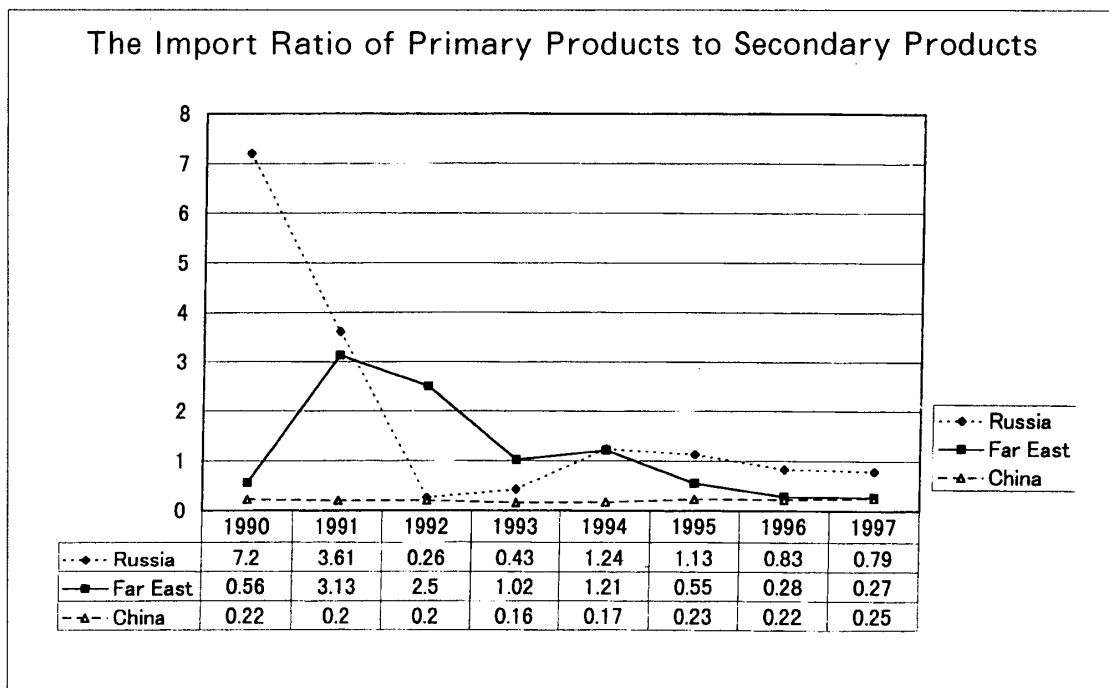


Figure 4

Finally, let us look at the weight of machinery, equipment, and transport equipment in the exports and imports. The situation for export is

shown by Fig. 5. On the one hand China has incredibly high ratio, on the other hand both Russia's and Primorski's values of import of machinery and equipment are low. In 1996 and 1997, the ratio for Primorski Region has grown. This can be explained by armament exports to China and other countries. Fig. 6 displays weight of machinery, equipment, and transport equipment in the imports. China's ratio is relatively high, that is to say it imports a lot of equipment necessary for its industrial modernization. The Primorski Region's ratio is lower than the China's and the Russian ratios. Then, it is worth noticing that a large part of Primorski's imports is composed by used cars, this does not help the industrial development.

As shown before, there can not be seen any signs of improving industrial structure in the Primorski Region, and its foreign trade pattern remains as follows: primary goods export/consumer goods import. Unless this status changed, industrial modernization is hardly possible.

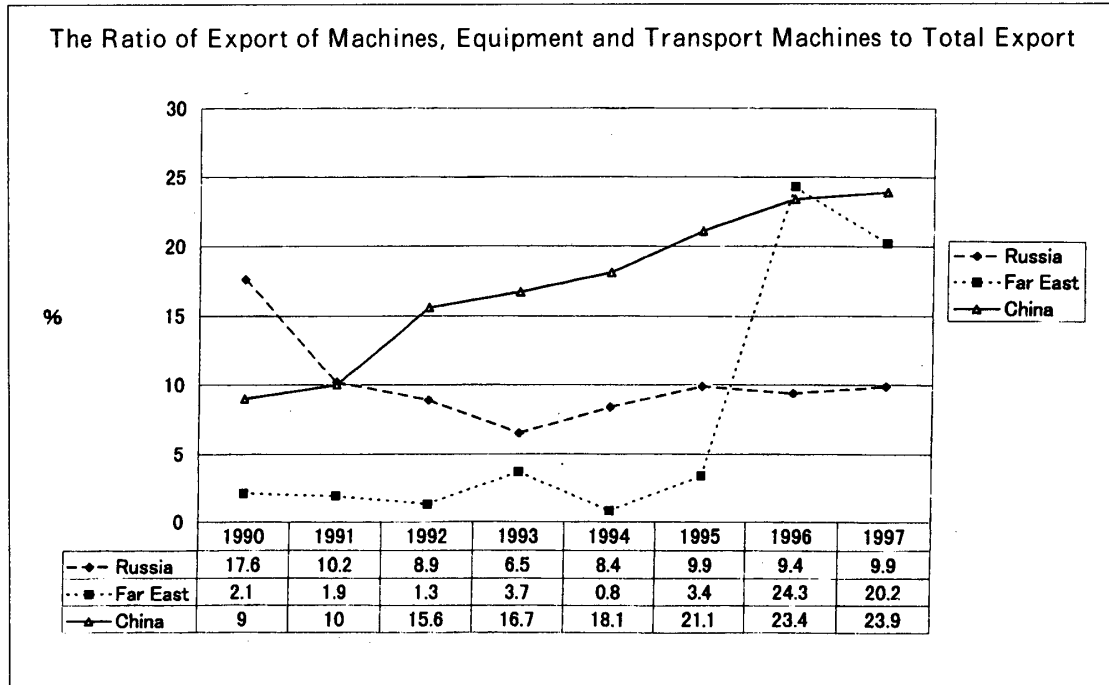


Figure 5

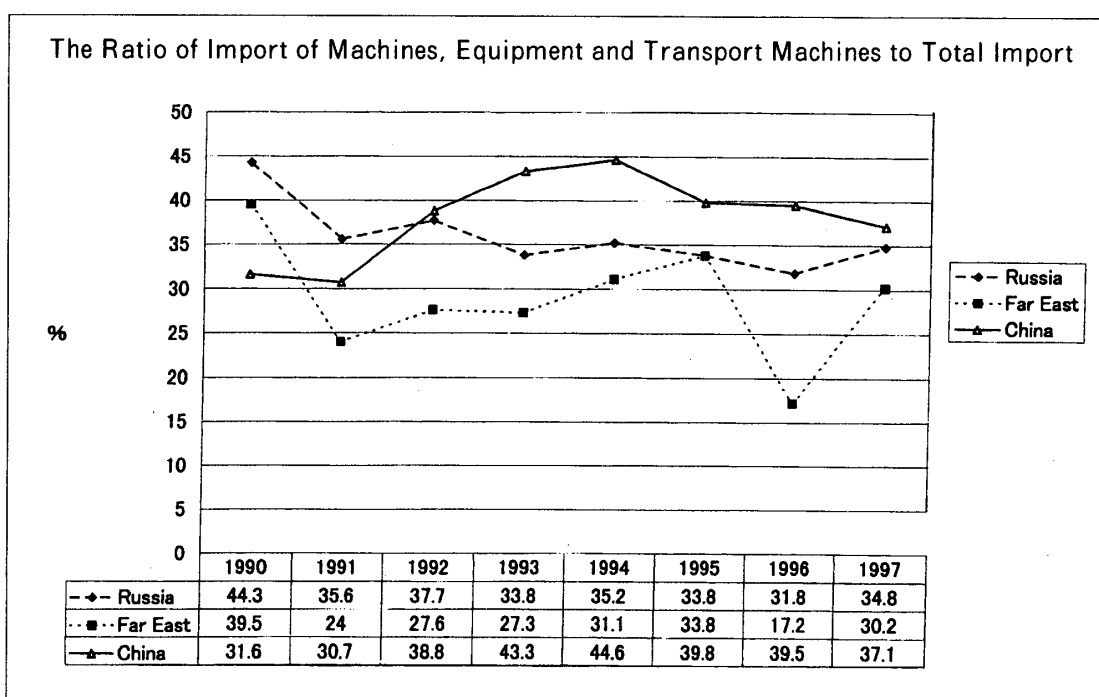


Figure 6

[4] Foreign Investment in the Russian Far East.

Table 6 Foreign Investments in Russian Far East (1997, US\$ 1000)

	Total	Direct Investments	Others
Russian Federation	10,498,000	3,897,300	6,600,700
Russian Far East	215,121	140,195	74,926
SAHA (Yakutia) Rep.	14,046	9,789	4,257
Jewish Autonomous Region	439	439	-
Primorski Region	43,133	9,953	33,180
Khabarovsk Region	10,796	10,469	327
Amur Region	419	239	180
Kamchatka Region	32,925	832	32,093
Magadan Region	62,802	61,610	1,192
Sakhalin Region	50,561	46,864	3,697

(Russian Statistical State Committee [Russian Society and Economy in January 1998.] 1998.)

Foreign investment in the RFE are only 2% of the total in Russia. Considering the RFE weight in Russian GDP of 5%, it is low. And only 0.05% of foreign investment in neighboring China in 1997 that was about US\$ 45.4 bln. Major destinations for foreign investment in the RFE are natural resource development, banking and finance, foreign trade, restaurant business.

[5] Conclusion.

- (1) Due to liberalization cooperation between the RFE and the Central Russia weakened, but was not successfully replaced by necessary cooperation with the Asian Pacific countries.
- (2) The current pattern of foreign trade does not stimulate industrial modernization.
- (3) Level of foreign investment is significantly low and not expected to help economic development.
- (4) In order to stimulate industrial modernization, change from primary goods export/value-added goods import to primary goods export/machinery and equipment import foreign trade model is necessary.
- (5) Active allocation of investment from the Central Government and abroad is important.