

The Putin Administration's Far East Development Plans and the Future of Korea-Russia Cooperation

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Background and Implications of Development Plan for the Far East and the Baikal Region in Putin's Third Term

The Russian government in Putin's third term, in addition to establishing the Ministry for the Development of the Russian Far East in May 2012 directly after the presidential inauguration, is preparing a national program for the "Socio-Economic Development of the Far East and the

Baikal region until 2025."¹ The economic factors play a critical role in this unprecedented interest of developing the Far East and the Baikal region. These regions, due to their geographical location, will be directly affected by the economic growth and integration of the rising Asia-Pacific region. Despite economic crisis, the Asia-Pacific region has been growing consistently, accounting for about 53 percent of world GDP and 44 percent of global trade.

¹ For reference, this article was written in mid-March 2013. And on March 29, 2013, the Russian government approved the national program of "Socio-Economic Development of the Far East and the Baikal Region."

At the meeting with heads of diplomatic missions on July 9, 2012, Putin stated that Russia's active participation in the process of Asia-Pacific integration will boost socioeconomic growth in Siberia and the Far East, and emphasized the linkage between Asian-Pacific economic cooperation and the development in the Far East.

In the dimension of "the peaceful cooperation structure in Northeast Asia and expansion cooperation with Eurasia," one of the Korean government's policy goals, the Russia's Far Eastern region is geographical links for promoting Northern Triangle cooperation among South Korea, North Korea and Russia. The Russian government's Far East development plan should be considered as a crucial factor for Korea's securement of new sources of economic growth, through its expansion into emerging markets. Accordingly it is highly necessary to analyze, based on the socioeconomic situation in the Russian Far East and the Baikal region, the Putin administration's concepts and plans for Far East development. And it is also required to seek ways to facilitate cooperation between Korea and Russia.

The Socioeconomic Situation in the Russian Far East and the Baikal Region

Geographical Scope and Resources

The Far East and the Baikal region include the nine federal subjects in the Far Eastern Federal District—Republic of Sakha (Yakutia), Kamchatka Krai, Primorsky Krai, Khabarovsk Krai, Amur Oblast, Magadan Oblast, Sakhalin Oblast, Jewish Autonomous Oblast and Chukotka Autonomos Okrug—along with three federal subjects in the Siberian Federal District—Republic of Buryatia,

Zabaykalsky Krai and Irkutsk Oblast. These regions cover 7.73 million square kilometers, amounting to half (45.2 percent) of the entirety of Russian territory.²

These regions are home to massive reserves of oil, gas, coal, uranium, iron ore, gold, copper and diamonds. Deposits of oil amount to 1.045 billion tons, mainly located in Talakanskoe in the Republic of Sakha, Verkhnechonskoe in the Irkutsk Oblast, and Sakhalin 1 and 2 in the Sakhalin Oblast. Reserves of gas amount to 7.4 trillion cubic meter, mainly located in Kovyktinskoe in the Irkutsk Oblast, Chayandinskoe in the Republic of Sakha, and Sakhalin 1 and 2 in the Sakhalin Oblast. There are 42.9 billion tons of coal, located in Mugunskoe in the Irkutsk Oblast, El'ginskoe and Kangalasskoe in the Republic of Sakha. In addition, there are about 8,066 tons of gold, including estimated deposits, located in Sukhoi Log of the Irkutsk Oblast, Natalkinskoe in the Magadan Oblast, and elsewhere. Copper reserves are mainly in Udokanskoe in the Zabaykalsky Krai, and diamonds in the Republic of Sakha.

² The Russian federation is composed of 83 federal subjects, the constituent entities of the Russian Republic, and all of which are grouped into eight federal districts—Central, Southern, Northwestern, Far Eastern, Siberian, Ural, Volga, and North Caucasian Federal Districts. The 83 federal subjects are comprised of 21 republics, one autonomous oblast, four autonomous okrugs, nine krais, which are autonomous ethnic entities, 46 oblasts and two federal cities, which are entities of local self-government.

Figure 1. The Eight Federal Districts of Russia, and the Far East and the Baikal Region



Source: Based on the map at http://en.wikipedia.org/wiki/File:Map_of_Russian_districts,_2010-01-19.svg

Population and Standard of Living

Although the area of the Far East and the Baikal region accounts for 45.2 percent of Russian territory, its share of the population is only 7.5 percent of Russia's total of 143,060,000 at 10,760,000 as of January 2012. The population of these regions decreased by 18.5 percent between 1990 and January 2012, and in particular decreased by 22.1 percent (about 1.78 million) in the Far Eastern Federal District, the largest decrease in all eight federal districts.

This population decrease is due to the poor living conditions in these regions including high prices, lack of jobs, and inadequate transportation infrastructure. As of 2011, the monthly per capita income in the Far Eastern Federal District is about 10 percent higher than the Russian average at RUB 22,870

(approx. USD 747)³ and the monthly average wage is about 25 percent above average at RUB 29,320 (approx. USD 958). However, actual incomes and wages are lower than average due to high prices. Furthermore, unemployment rates in the Far East and the Baikal region have been higher than the Russian average, with an unemployment rate of 7.4 percent in the Far East region and over 9 percent in all three federal subjects of the Baikal region in 2011. The railway density in the Far Eastern Federal District is only a fourth the Russian average at 1,300 kilometers per one square kilometer, demonstrating the lack of development in the transportation infrastructure.

³ Converted at a rate of \$1=30.62 Rubles (Bank of Russia standard as of March 7, 2013). The same exchange rate applies below.

Table 1. Population Changes by Russian Federal District

(Unit: 1,000, as of January 1 of the respective years)

	1990	2001	2012		Rate of Increase/Decrease (as of 2012)	
					Compared to 1990	Compared to 2001
Total	147,665	146,304	143,056	100%	-3.1%	-2.2%
Central	38,018	38,175	38,538	26.9%	1.4%	1%
Northwestern	15,310	14,199	13,660	9.5%	-10.8%	-3.8%
Southern	13,324	14,060	13,884	9.7%	4.2%	-1.3%
North Caucasian	7,373	8,702	9,493	6.6%	28.8%	9.1%
Volga	31,764	31,532	29,811	20.8%	-6.1%	-5.5%
Ural	12,725	12,471	12,143	8.5%	-4.6%	-2.6%
Siberian	21,106	20,333	19,261	13.5%	-8.7%	-5.3%
Far Eastern	8,045	6,832	6,266	4.4%	-22.1%	-8.3%
(Siberian) Baikal Region	5,163	4,799	4,495	3.1%	-12.9%	-6.3%
Far Eastern and Baikal Regions	13,208	11,631	10,761	7.5%	-18.5%	-7.5%

Source: Based on Российский статистический ежегодник 2012, pp. 76–79

Production, Investment, and Trade

Despite socioeconomic problems such as decrease in population and poor living conditions, the region's economy is continuously expanding. The gross regional domestic product (GRDP) of the Far East and the Baikal region combined amounts to RUB 2,944.6 billion (approx. USD 96.166 billion) as of 2010, amounting to 7.9 percent of the Russian total. The Far East region accounts for 5.6 percent of the total and the Baikal region 2.2 percent. The per capita GRDP of the Baikal region is RUB 271,670 (approx. USD 8,872) as of 2010, about 3.8 percent higher than the Russian average of 261,804 rubles, while the per capita GRDP of the Far East region is RUB 334,306 (approx. USD 10,918), about 27.7 percent higher than the national average.

Fixed capital investment in the Far East and

the Baikal region is RUB 1,244.5 billion (approx. USD 40,643.37 million) as of 2011, about 11.5 percent of the Russian total (about 9.4 percent in 2005), and fixed capital investment in the Far Eastern Federal District in particular has steadily expanded.

Foreign investment in the Far East and the Baikal region is USD 10.348 billion as of 2011, an increase of fifteen times over the figure in 2000. The Far East region accounts for 95.7 percent of the total foreign investment in these regions, with the majority in the Sakhalin Oblast (USD 7,085 million) and the Republic of Sakha (USD 1,404 million) where the major natural resource reserves are located. On the other hand, foreign investment in the administrative and economic centers of the region in Khabarovsk Krai (USD 118 million) and Primorsky Krai (USD 81 million) is minimal.

Table 2. GRPDP by Russian Federal District

(Unit: Million Rubles, %)

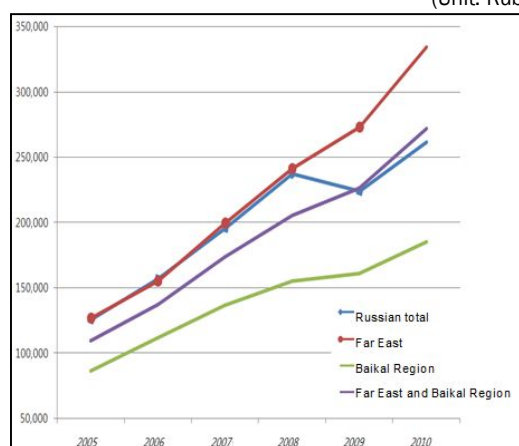
	2000	2005	2010	
			GRPDP	Pro- por- tion*
Total	5,753,672	18,034,385	37,398,520	100
Central	1,841,499	6,278,360	13,363,655	35.7
North-western	578,505	1,799,780	3,905,154	10.4
Southern	329,696	936,057	2,293,686	6.1
North	105,178	352,069	887,606	2.4
Caucasian	1,036,787	2,799,036	5,660,130	15.1
Volga				
Ural	866,133	3,091,363	5,087,786	13.6
Siberian	687,072	1,951,300	4,093,589	10.9
Far Eastern (Siberian)	308,802	826,420	2,106,914	5.6
Baikal Region	154,614	402,656	837,720	2.2
Far Eastern and Baikal Regions	463,416	1,229,076	2,944,634	7.9

Note: * Proportion of total Russian GRDP

Source: Based on Российский статистический ежегодник 2010; Российский статистический ежегодник 2012, pp. 333–335

Figure 2. Trends in the Per Capita GRPDP of the Far East and Baikal Regions

(Unit: Ruble)



The foreign trade in the Far East and the Baikal region increased more than twofold between 2005 and 2011 to USD 43,885.5 million, with export increase of 156 percent from 2005 to USD 32,511.9 million and import increase of 70 percent to USD 11,373.6 million. In 2011, foreign trade turnover in the Far East region made up USD 34,406.7 million, accounting for 78.4 percent of total trade in the Far East and the Baikal region. The main trading partners of the Far East region as of 2012 are Korea (28.2 percent), China (27.5 percent), and Japan (23.2 percent), with these three countries accounting for 78.9 percent of the region's foreign trade.

Basic Direction of the Putin Administration's Far East Development in His Third Term

The Russian government adopted the "Strategy for the Socio-Economic Development of the Far East and the Baikal Region until 2025" in 2009, presenting the fundamental concept of its plans for the development of the region. In conjunction with the foregoing, the government has been conducting the federal targeted programs "Socio-Economic Development of the Far East and the Trans-Baikal region until 2018" and "Socio-Economic Development of the Kuril Islands (Sakhalin Oblast) between 2007–2015."

Interest in Far East development increased even further with the launch of Putin's third term. The Russian Bank of Foreign Economic Activity (Vnesheconombank, VEB) in November 2011 established the Far East and the Baikal Region Development Fund in the form of a corporation in order to attract investment to the Far East and the Baikal region and to conduct large-scale projects. In addition, the

responsibility for “Program 2018” and “Program 2007–2015” was transferred to the Ministry for the Development of the Russian Far East, after its establishment in May, from the Ministry of Regional Development in November of 2012. Establishing an independent federal ministry for a particular region's development is an unprecedented move in Russian history, and is demonstrative of the vital necessity of Far East development and the Putin administration's determination. In November of 2012 the Ministry for the Development of the Russian Far East submitted a list of over 90 priority investment projects to the VEB, which included modernization and reconstruction of the Baikal-Amur Mainline (BAM), connection of the Trans-Korean Railway and the Russian railway system, construction of a bridge between Sakhalin Island and the mainland, and the development of airports in the Far East region.

Furthermore, the administration is preparing a comprehensive national program of “Socio-Economic Development of the Far East and the Baikal Region until 2025 (hereinafter National Program 2025),” which encompasses previous federal targeted programs. The “National Program 2025” includes the scope of both the federal special programs “Socio-Economic Development of the Far East and the Trans-Baikal region until 2018” and “Socio-Economic Development of the Kuril Islands (Sakhalin Oblast) between 2007-2015,” and will specify development plans in a wide range of fields including not only large-scale infrastructure projects but also agricultural complexes, natural resources development, special economic zones, fuel-energy complexes, tourism and social infrastructure (education, health, culture and sports).

On March 12, 2013, Minister Ishayev of the Ministry for the Development of the Russian Far East announced that the “National Pro-

gram 2025” would require RUB 3.9 trillion (about USD 127.37 billion) of the national budget, RUB 6.8 trillion in private investment, and RUB 300 billion from the federal subjects budget for a total of RUB 11 trillion (approx. USD 359.24 billion). Eighty-eight percent of the federal budget assigned to the program will be invested in building transport, energy and social infrastructures. The Russian Duma is preparing a special Act to guarantee national support and preferential treatment for Far East and the Baikal region development. The current plan is to pass the Act by December 2013.

Areas for Korea-Russia Cooperation

The Russia's Far East development plan in Putin's third term is expected to be conducted under aggressive governmental support and detailed supervision unlike previous plans, considering the background, scale of the projects, and the aspects of institutionalization. The federal government's current plan to invest RUB 3.9 trillion, which accounts for nearly 30 percent of Russia's entire annual budget, and the announcement to attract large amounts of private-sector investment, represent unprecedented governmental financial support measures. The establishment of the Far East and the Baikal Region Development Fund by the VEB, the establishment of the Ministry for the Development of the Far East, the preparation of a comprehensive long-term national program, and the planned enactment of a special Act, all signify a systematic mechanism for the development of the regions. Therefore selection of core areas for cooperation and development of cooperative mechanisms that befit our capabilities, considering the Russian government's Far East development plans, is urgently needed.

Core Cooperation Areas

First of all, it is necessary to build appropriate institutional foundations for promoting Korean businesses advancement into the Far East and the Baikal region. At the Korean-Russian summit, convened as a follow-up to the Vladivostok APEC Summit of September 2012, the two leaders agreed to pursue agreements on such matters as arranging visa waivers to increase personnel exchanges and negotiating a social security agreement to relieve the financial burdens on corporations. In addition to carrying out these commitments to expand trade and investment, it is necessary to monitor compliance in the future as well.

Furthermore, since the Russian government has determined the development of transport infrastructure as a priority for boosting economic growth in the Far East region, Korea should strengthen its transport and logistics links with Russia through cooperation in railway, port and aviation sectors. Regarding the Ministry for the Development of the Russian Far East has identified the project linking the Trans-Korean Railway and the Russian railway system as one of the priority tasks among large-scale investments, Korea should take an active role in the North Korea-Russia rail linkage project for the Najin-Khasan section, which is a pilot project for South Korea-North Korea-Russia railway linkage. Korea should also consider establishing a Korea-Russia Railway Cooperation Council in order to participate in the high-speed railway project that Russia is pushing forward in order to strengthen transport links between the Far East and the Baikal region and the Russian West. With Russia's interest in developing ports on the coast of the Pacific and the Arctic Ocean, the main waypoints on the Arctic sea route, Korea needs to seek to establish the Korea-Russia Arctic Cooperation Center by participation both private and public sectors

from each countries in order to prepare concrete means of cooperation.

In addition, Korea should review in detail the Russian Government's energy and minerals development and export policy seeking creative cooperation measures. The Putin administration, in addition to providing tax breaks to resource-development companies that invest a certain amount in the Far East and the Baikal region, will mandate the establishment of a mining and processing cluster for large-scale resource developments. It is therefore necessary for Korea to review the preferential measures for resource development in these regions, and prepare a development plan vertically integrating mining, processing, and export process.

Improvement of Institutions for Cooperation

With Russia's unprecedented proactiveness in Far East development, Korea should review and prepare alternatives to the preexisting Korea-Russia cooperation mechanisms. In particular, Korea should establish a counterpart to the Ministry for the Development of the Russian Far East to support and coordinate investment and economic cooperation projects in the region.

Furthermore, the head representative of the Korea-Russia Economic and Technological Joint Commission should be elevated from minister level to Prime Minister level to raise the Commission's profile, and a permanent secretariat should be composed to monitor compliance with the agreements reached at the Commission. In particular, Korea should consider establishing a Korea-Russia Far East Development Fund to support investment by Korean corporations in the Far East and the Baikal region to provide financial guarantees for the expansion of bilateral cooperation.

Governmental policy and systematic support is also required to lessen the risks of corporations investing in the Far East and the Baikal region. High entry barriers and risks are general features of the investment environments in emerging markets and particularly Russian market, but successful entrants gain an advantage over competitors and greater gains. Therefore, the Korean government should focus on developing policy and institutional means, under a long-term strategy that keeps in mind the investment environment, to decrease the risk of investing corporations. KIEP