

## Economic Climate and Business Prospects in the Russian Far East

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In the Russian Far East, a "Russian Far East and Eastern Siberia Association" for economic cooperation unites ten provinces. I am the chairman of this association. The association includes the Republic of Sakha (Yukutia), Primorskii krai, Khabarovskii krai, Amurskii, Kamchatskii, Magadanskii, Sakhalinskii, and Chetinskii oblasts, the Jewish Autonomous oblast, and Chekotskii Autonomous okrug. The association covers approximately seven million square kilometers, or 40% of the territory of the Russian Federation. The area contains more than one-third of Russia's forest reserves, about 40% of forecasted Russian coal reserves, and about 26 million tons per year of marine biological resources. In all, the Far East contributes 30% of the Russian Federation's production of raw materials.

The strong position of the Far East in natural resources, not only domestically, but in the Asia-Pacific region as a whole, allows it to participate in the on-going process of Pacific integration and to work out a program of international participation in the development of the Russian Far East. A key characteristic of the region inherited from the Soviet period is the militarization of the economy. Until a short time ago, more than half of the industrial enterprises of the region, particularly in Khabarovsk and Primore, as well as most energy and transport enterprises, were controlled by or oriented to the military. We believe that an important goal of our current policy is to preserve the quality workforce and scientific potential of the defense enterprises and to find effective civilian applications for this technology.

Due to the specifics of the region, development of economic reforms in the Far East has progressed more slowly and painfully than in Russia as a whole. Nonetheless, despite the fact that production continues to drop, there are already many hopeful changes in the industry. Market relations have continued to develop, and production has increased in some areas. Last year there was an increase in the production of oil and gas, coal, and cardboard. In Khabarovsk, the production of nonferrous metals, particularly gold and copper, also increased. Altogether growth occurred in 16 different areas of production.

These changes in the Russian Far East continue alongside structural changes such as conversion and the development of a market economy. There have also been some changes in the service sector. Labor has flowed into trade, finance, management, education and other areas. In industry, some labor has moved into the energy complex, food industry, and nonferrous metallurgy. In general, labor is moving out of the former military enterprises. Economic reform has produced a growing number of small and medium size businesses, the development of a new banking system, a stock market, and services such as insurance, consulting, auditing, and law. Today in Khabarovsk, 17 thousand private companies employ about 25% of the labor force and produce 30% of the region's turnover.

Changes in the structure of the Russian economy, and liberalization of foreign policy, have facilitated the re-orientation of Russian Far East economic relations towards the Asian-Pacific region. As enterprises develop relations with neighboring countries, the percentage of production for export has risen, and the number of internationally competitive goods has risen. In the first nine months of this year, the amount of exports from all Far Eastern territories stood at about 1.7 billion dollars, twice as high as 1994. Northeast Asian countries are major trading partners, such as China, with 39% of all exports, Japan, at 34%, and the Republic of Korea, at 16%. The Far East exports fish, timber, coal, oil and oil by-products, rolled steel, and alloys of nonferrous metals. Imports of machines and technological equipment has increased, while imported food and consumer goods have maintained their previous levels.

Over the last few years, a very important development in the Far East has been the turn from trade relations to investment cooperation and the implementation of large international projects. Since 1989, about 2,500 joint ventures have been registered, mostly with Japan, the United States, and the Republic of Korea. Potential for profitable investment in the Far East derives from the opportunity to cooperate with a wide range of enterprises, the quality labor force, the high level of scientific potential, and the increasing openness of the local economy. Investment is supported by local government policies, such as local laws on investment, local guarantees, special privileges for foreign investors, the development of market infrastructure and financial institutions, and the training of specialists who work with foreign investors.

The Association of the Far East and Eastern Siberia has developed a long-term program for the development of the region. The program focuses on the period up to the year 2005, and envisions not only processing of natural resources, but also the development of the energy and agricultural complexes, transport infrastructure, and the conversion of defense

enterprises. Approximately eight billion dollars are needed to fulfill this program. The program is based on a new concept of economic and social development in the Far East. The basics of this program is the fundamental reconstruction of economic infrastructure in the Far East, geared towards increasing the openness of this region for mutually beneficial cooperation with the countries of the Pacific Rim. This New Economic Policy in the Russian Far East concentrates on developing financial and material resources with the active participation of the local administration, and the stimulation of local business activities, including the creation of joint ventures. The objectives are to reconstruct the economy and to foster the production of competitive goods.

In view of the importance of attracting foreign investment, the administrations of the region have created a favorable environment for foreign investment. For this purpose tax privileges have been granted. In Khabarovsk krai, in certain production sectors and for hotels, newly founded joint ventures with a share of foreign investment greater than 30%, branches of foreign companies, and companies which are wholly foreign owned are exempt from the profit tax for two years. Joint ventures with a share of foreign investment amounting to more than five million U.S. dollars, and operating in the development of mineral deposits and in transportation construction projects are exempt from the profit tax for three years. Exemption from the profit tax means a tax reduction of 22%. Another step taken to attract foreign investors has been the creation of free economic zones. The best results have been achieved in the free economic zone of Nakhodka, where work began in 1990. In Amurskaya oblast, a new international economic zone, called Blagoveshenskii Haihe, has been created for increased cooperation and development.

The prospects for improvement of the Far Eastern economy also hinge on Russian participation in international projects such as the Tumen River Area Development Programme. Local government leaders in Northeast Asia have participated actively in conferences in the Russian Far East. Such a conference was held in Khabarovsk in September 1995, and was very successful. And in May of this year, Khabarovsk will host the first Far Eastern International Investment Conference.

# The Russian Far East Economy: The Current Situation and Potential for Development

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As the end of the 20th century approaches, the economic and political situation is changing substantially in the Pacific region as a whole as well as in Northeast Asia. The economic prosperity of Japan, South Korea, Hong Kong, Taiwan, and Singapore, and successful market reforms in Thailand, Malaysia, China, and Vietnam provide a very strong stimulus for Russia and the Russian Far East. Northeast Asia is moving to fulfill its destiny in the 21st century. The question is whether the Russian Far East will join this dynamic region? The answer will depend on the decisiveness of regional and federal authorities regarding market reforms which must be synchronized with the modernization of the economic structure of Northeast Asia.

From the very beginning of the liberalization process, the Russian public and many analysts, particularly those in the West were certain that the positive results of "shock reform" would come quickly. The long and deep crisis in the Russian economy was an unpleasant surprise for everybody. And now the crisis has reached all sectors of the economy, especially material production (Table 1).

Table 1 Social and Economic Indicators in Russia, 1992-1995 (percent)

Indicators	1992	1993	1994	1995 First quarter
Gross Domestic Product	81	88	85	95
Industrial Production	82	86	79	95.5
Agricultural Production	91	96	91	89
Investments	60	88	74	76
Retail Trade	97	102	100.1	90
Services	82	70	64	86
Share of population with an average income below the poverty level	31.5	24.4	30.4	31

Sources: Osnovnye pokazateli socialno-ekonomicheskogo polozhenia i khoda dkonomicheskoy reformy v Rossiiskoy Federatsii v I kvartale 1995 goda.- Moscow: Goskomstat RF, 1995; Socialno-ekonomicheskoe polozhenie Rossii, Ianvar-may 1995 toda. - Moscow: Goskomstat, 1995.

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