

**Russia's Far East: economic development or economic
dependence?**

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I. Introduction

The Russian Far East (RFE) is a massive territory that covers almost forty percent of the Russian Federation. It contains huge reserves of natural resources and is strategically located on the Pacific Rim, with economically expanding neighbours. Yet, in spite of these apparent advantages, the region remains one of the poorest and desperate in Russia. The main aim of this paper is to analyze what is holding back the development of the Russian Far East, and then with this information develop questions and general conclusions about the future of economic development of the region.

History of the Russian Far East

The RFE has seen many changes during the past two centuries. The region's definition has changed as a result of different rulers, ideologies, or governing parties. Complicating the definition is geographical positioning. The region has neither a defined periphery nor a specific world outlook, because it has physical connections to both Europe and to Asia (Stephen, 1994). Currently, the region's borders are labeled by the economic designation handed down by Moscow when it defined federal districts. This paper will utilize this economic regional definition for the basis of the analysis (see Figure 1).

Figure 1 – Map of the Russian Far East



Source: Russian Business Site, accessed at the following link:
http://www.russianbusinesssite.com/regional_information/fareast.asp

To discover why the region suffers it is important to see how it developed in the last century. In the early part of the century, the population of the region was increasingly diverse. However, diversity did not interfere with the development of a collective identity. Identity expansion was in large part due to the growth of the intelligentsia in the region (Stephan, 1994). Unfortunately for the RFE, identity and regional solidarity would soon come to hurt the region when the political realm of Russia became unstable in the coming years after the Bolsheviks took power over Russia near the end of 1917.

Many people in the region resisted Soviet rule at first, and were relatively able to do so, as until the mid 1920s the Far East remained largely outside of the control of the central communist government in Moscow. The central government did take action

however. While they lacked the funds to support military suppression, the solution for the government was simply to cut connections to the region and let them stagnate. Following the stagnation of the 1920s, the 1930s were a decade repression, now that Moscow had enough money and power to fully control the RFE. It was also during this time that Moscow first used the tool of Balkanization to reduce the solidarity of the peoples of the region. The following decade, the 1940s, solidified the regions' dependence on Moscow. WW II resulted in the death of approximately fifteen percent of the regions' inhabitants, and countless resources were used to aid in the war effort. Furthermore, in the latter part of the decade, when the most help was needed, the region saw nothing, as Moscow's focus was elsewhere, trying to rebuild European Russia (Stephan 1994).

The economic prospects for the Far East changed little during the Khrushchev and Brezhnev eras. Military build-up in the region continued, and structurally the region still had multiple problems. During this period, there were frequent energy shortages, Balkanization continued to disrupt growth potential, and region continued to import materials it should have in fact been able to export (Stephan 1994).

Leading up to the current situation, in the early 1990s, the break up of the Soviet Union meant that the Russian Far East was now open and free to take its place in its true geo-political and geo-economic home. However, with the collapse of the Soviet Union, the region in actuality saw the hardest and most challenging times yet. Subsidies declined, fuel shortages became common, and the economy faltered. This added to the problem of unemployment and made the region even less attractive to foreign investors (Stephan, 1994). The current problems of the region are now very clear and the problems encountered during the rest of the 1990s will be investigated below.

Regional Development Theories

Before progressing to the analysis of the Russian Far East's economic situation, regional development theories and practices must first be considered. The field of regional development has a multitude of theories, and while all are useful, none are solely adequate as a basis for a regional development policy.

The importance of regional development is multifaceted. As Higgins and Savoie (1997, 3) note, "national economies are in fact collections of spaces (regions), each with its own society and its economic, social, political and power structure." A common component of most of the theories is that regions dependent on natural resources will without a doubt fall behind other economies in time, unless substantial changes are made to the structure of the economy. While these resource industries are often key base industries, income from them must be reinvested into technology so as to increase efficiency. More importantly, revenue must also be invested in new sectors, so as to move the economy into one that is focused much more in human resource based development (Higgins and Savoie 1997). The sooner this occurs the better off the region will be. If it occurs too late, as profits decline the region will quickly find itself dependent on resource extraction and find it very difficult to break this cycle.

However, at this point, the importance of culture in regional development becomes much clearer, for it is often the culture of a region that determines whether the people make the structural changes noted above. Joseph Schumpeter, a classic economic thinker, developed a theory along these lines. He studied the importance of

entrepreneurship for regional development and that a specific “social climate” must exist so as to encourage and foster entrepreneurs (Higgins and Savoie 1997).

Several theories also point to the role that government must play in regional development. Government is especially important in developing nations, where the natural tendency of the market will tend to exacerbate regional inequalities. However, where most governments falter is that government involvement does not necessarily mean subsidies. In fact, as the example of regional development in Malaysia demonstrated, subsidies are likely unnecessary and counterproductive.

The example of Malaysian is also useful for demonstrating the most important and valuable regional development theory, the *growth poles theory*. This idea developed originally by François Perroux, is in its basic form, is that growth often takes place around one key industry, usually manufacturing based, and then with assistance the original industry can serve “as a diffuser of innovation”. As a result, diversified growth around this first industry will then occur (Higgins and Savoie 1997). Malaysia followed this theory fairly closely, but also added some of their own initiatives. In their case, a key initial industry, or *growth pole*, in each region was determined, and then investment in infrastructure and encouragement for investment in these industries were given.

Consequently the idea was not to redistribute income, economic activity, or industries from richer regions to poor ones, but rather to *encourage* new growth in all regions. The plan did not work perfectly, but to date it is the most successful example of regional development.

To summarize, thus far, no theories of regional development provide a panacea for regional economies. Nevertheless, the theories can be effective if they are used to

explain the past and present situation, and then used to plan for future development (Higgins and Savoie, 1997). There is one fact that is a certainty in regional development theory: government is essential for any development plans to be effective; the market on its own will not solve inequality.

II. Barriers to Development

The fact that the Russian Far East faces some of the most severe economic problems in Russia illustrates the point that there are many factors restricting development. Some of the most important will be covered in this section. Before this discussion a breakdown the main industries and trading partners of the Far East is important.

Table 1 – Major Foreign Trading Partners of the RFE

Japan	57%
South Korea	7%
Vietnam	2%
USA	3%
China	30%

Source: The Russian Far East (Newell and Wilson), p. 9

Table 2 - Structure of the RFE's Main Industrial Production

Food Industry	34%
Timber, pulp, and paper	9%
Machine Building	15%
Nonferrous Metals	19%
Building Materials	7%
Fuel Industry	4%
Light Industry	4%
Others (including- Electrical, Iron & Steel)	8%

Source: The Russian Far East (Newell and Wilson), p. 7

Infrastructure and Energy

Lack of infrastructure or the inefficiency of the existing infrastructure is one of the most obvious limitations to development in the RFE. The transport network is an unmistakable example of infrastructure crisis. The region lacks efficient road transport, and worst of all the railway system is highly inefficient. Because the Trans-Siberian was built too long ago and saw too few improvements during the Soviet period the cost for major improvements to the railway would now be substantial (Kontorovich, 1999). In addition, the costs for transportation have increased as the federal government has sharply reduced transport subsidies. Furthermore, much of the region, especially the North, has no railroads at all and has very few paved roads (Newell and Wilson, 1996).

Altogether, as a result of transportation infrastructure problems, both import and export possibilities are disrupted, because the cost of resource extraction becomes a barrier to development. Further impeding import/export possibilities are the terrible inefficiencies of the ports of this region. Examples of materials sitting in the port for days or even weeks are not uncommon (The Economist, 1994).

A further infrastructure issue is industry inefficiency. Most of the resource extraction continues in the traditional Soviet way, focusing on labour intensive production, with few initiatives to improve efficiency. (The reader should know this paper was published on the Internet) Furthermore, this industry tended to be focused on short-term profit, and lack re-investment initiatives. However, as subsidies have declined, some resources in more remote regions are now considered unprofitable and profits in other areas have declined significantly (Meyer, 1999).

Finally, the RFE is crippled by an energy crisis. This situation was created in past decades due to the Soviet policy of autarky. While the Far East contains 40% of Russia's coal reserves, over 9.6 billion tons of oil and 14 trillion cubic meters of natural gas, it actually imports much of its energy needs. Further to this problem, energy production that occurs in the region takes place most often away from the cities, as a result of military precautions during the Soviet period. Today however, this simply leads to inefficiencies due to power loss during transmission (Bradshaw and Kirkow, 1998).

From this analysis, it is clear the government of the past has played a large role in creating the difficult situation the RFE has faced. Also, it is beginning to show that government in the 1990s has not assisted the situation either.

Federal Government – Neglect and the entrenchment of periphery relations

Infrastructure neglect aside, the federal government has caused further problems for the RFE. Because the central government has the most power, their cooperation is absolutely essential for regional development success. They must also bestow direction for the regional and local governments. However, it will be shown how they failed in almost every aspect.

Moltz (1996, 186) describes this serious problem:

[e]xisting conditions in the Russian Far East are characterized by the worst of both worlds: neglect from the center and a low level of interest among disillusioned foreign partners.

“Neglect from the center” has resulted in disillusioned foreign investors and Akaha (1997) notes that government has in fact dissuaded investors by its actions. Investors prefer stability, but with frequent legislation changes, cancellation of tax privileges, and a lack of economic and environmental policy stability investors are wary of the RFE (Akaha 1997). Further to this, the recent energy shortages that dissuaded investors are in part attributed to lack of cooperation from Moscow (Bradshaw and Kirkow, 1998).

Moscow has failed the RFE in several other aspects as well. The federal government has shown little regard for environmental protection and regulation. In most developments to date, little desire for sustainable development has been revealed. However, without environmental protection anti-development, anti-market, and anti-foreign sentiment will generate more strength, further limiting development possibilities.

In fact, anti-foreign sentiment is already a potential major problem because the people of the RFE now see foreigners as exploiting their land with few returns for residents (Akaha 1997).

A lack of value-added processing is in fact the problem and here again the federal government has failed the people of the RFE. The government demonstrated limited concern that the resources of the Far East continued to be exploited and that the region in many respects has been relegated to essentially “colonial” status, just as it was in the early 1900s (Kontorovich, 2001). A perfect indicator of this is the void of manufacturing activity in the RFE, especially in regards to foreign investment. The regions have asked for special economic zones, where manufacturing and trade would be much more attractive to investors, but Moscow has been reluctant to grant these powers (Moltz, 1996).

In fact Moscow has been reluctant to grant much power at all to the RFE, and have given them little autonomy. The aforementioned example of the delay in creating a free-trade zone is but one example of Moscow’s effort to retain control. Akaha (1997) notes that if Moscow is unwilling to give autonomy or insignificant territory away in other locations, they will continue to be over-protective of a territory as important as the RFE. However, beyond the issue of control, Moscow’s interest and assistance for the region ends. Instead of reinvesting in the region, the government is mostly content to collect immediate revenue, neglecting future economic developments (Moltz, 1996). Finally, to further strengthen their position Moscow has continued to play the regions against each other, just as Soviet governments before it did (Akaha 1997).

Altogether, it is clear that Moscow desires to develop the RFE, in so far as to provide immediate federal income. However, beyond this, in regards to future and sustainable development, Moscow is but further entrenching the Far East as a periphery region. The government has simply “failed to provide an environment conducive to foreign trade and investment” (Meyer 1999).

Regional and Local Government Failures

Certainly all governmental blame cannot be placed exclusively on the federal government. Regional governments (regional government referring to the ten state/provincial governments that make up the RFE) certainly must accept some responsibility. Primarily, regional governments have failed to resolve conflicts amongst themselves, and thereby weakening their influence on Moscow. The benefits of stability can be seen the relative success of the Sakha Republic. As mentioned in Moltz (1996), Sakha worked closely with Moscow and also used their abundance of natural resources to acquire several major projects, including a deal with De Beers, and used their position to receive high returns from resource extraction. Moltz concludes by stating that in part, Sakha has received more attention and concessions than the rest of the RFE due to its republic-level status and because of “lingering fears of Sakha’s independence declaration of 1990” (188).

Regional solidarity and a lack of internal stability in many of the provinces, especially in Primorski Krai has further crippled the RFE (Moltz 1996). Stability within the region would have encouraged investment, regardless of the failings of Moscow, but

during most of the 1990's the provinces were often unable to show the stability essential for attracting investment (Akaha 1997). Furthermore, many investors were deterred by the high crime experienced in many of the ports of the RFE (Economist 1994) and regional and the local governments are largely to blame for the lack of law enforcement. Additionally, the governments' inability to secure water and electricity has in fact caused foreign business to simply use ports in neighbouring countries, even those in North Korea (Meyer 1999).

Culture, Attitudes, and the People of the RFE

The citizens of the Russian Far East have contributed to economic situation of the region as well. Accordingly, they cannot blame their regional and federal government for all their problems. To begin with, the people are equally as guilty as government for a lack of long-term planning. As Meyer (1998) and Kerr (1996) note, short-term profit was often the motivation of private business, and consequently few funds were invested for capital improvements. However, further problems have now resulted because as resource extraction industries have been forced to move to more remote location profits have declined and now there are few funds for remaining, even simply for basic consumption. Furthermore, lack of infrastructure upgrades further impedes export prospects, as products often no longer meet the standards of the RFE's more developed Asian trading partners.

Racism is an even more significant problem. Increasingly in the 1990s the RFE found itself relying on migrant labour, creating social conflict, because migrants were

frequently targeted for a multitude of economic problems. While regional governments are to blame in part for this, as they have used migrants to deflect the pressure of themselves, ethnic Russians have accepted and encouraged racist practice as well. For example, the local population of Primorski Krai continues to make claims that the Chinese are attempting to “take over” the region and consequently have acted in a manner so as to dissuade further involvement of Chinese in their region (Moltz, 1996) On the whole, foreigner traders and investors are resented, and as a result prospective investors find themselves being denied opportunities, as Russians try to ensure their majority control over business (The Economist 1996). Further to this, fear of foreign investors is sometimes so extreme that, “[w]hen joint ventures become profitable, Russian partners sometimes try to force out their foreign partners” (Meyer 1999, 220).

Clearly, this presents neither the invitations, nor even the basic climate for foreign investors. While the people do have a legitimate claim to ensure their resources are protected, they have to come to term with the difficult acceptance that foreign capital is necessary for any hope of development and for eliminating the RFE’s periphery status. Here we find that Joseph Schumpeter’s analysis of the importance of culture in regional development is very much true in the case of the Russian Far East.

III. Conclusion

It is abundantly clear that the Russian Far East has many barriers to economic development. As one looks to the future of the region, the prospects are poor. The basic structure of the RFE’s economy is weak. The infrastructure of the region is inadequate

and continues to degrade, just as more strain is being placed upon it. The federal government has demonstrated little concern for true long-term development of the RFE. Instead, Moscow has to date simply further entrenched the periphery status of the Far East. However, the people of the region have helped themselves very little. The regional governments have difficulty agreeing and showing solidarity and thus, weaken their voice in Moscow. Furthermore, the people of the region have been unwilling to accept that fundamental changes to the way they do business must occur for real economic growth to be a possibility

Nonetheless, in a spatial context, potentially there may be more to the problem than the factors listed so far throughout this paper. The introduction suggested that the region is in a strategic location on the Pacific Rim and has economically expanding neighbours. The Economist (1994) suggests that the region is a “prime location”. However, there is the potential that *location* may indeed be one of the biggest *problems* of the RFE. As Moltz (1996) and Meyer (1999) note, investors have often instead put their money and taken their business to nearby countries, even into communist Vietnam and in to North Korea. Therefore, because the RFE’s economy is now so weak, so dependent on Moscow, does its location in fact hinder future growth at this time as nearby alternative investments are far more attractive? And if this is the case, are there any ways in which this can be overcome? Or instead, must the RFE and Moscow now find and accept the region’s current place in the Pacific Rim and work with this new reality?

One possibility for the future is the prospect of developing a *growth pole* somewhere in the region. For this to occur, as was discussed, a strong manufacturing

industry would have to be developed. Kontorovich (2001) suggests this is unlikely due to the overwhelming structural problems of the economy of the RFE, and because other more attractive markets are so close. However, the question remains, could Russia and its Far East make this theory work for them? Clearly it would mean sacrifice, and likely short-term neglect of many parts of the RFE, and many people would have to relocate. It would mean cooperation from all levels of government and a great deal of funding and involvement from Moscow. It would also require the cooperation of the entire population of the RFE. Whether this is all possible is the question to be considered.

Regardless, the development of a growth pole is currently an unlikely prospect. It involves a complete reversal of almost every barrier to development described in this paper. However, for the people of the Russian Far East, they have few other choices. The future has two main routes: a long and difficult period of adjustment with the potential for real development and as such a possible positive long-term future; otherwise, the region faces continued struggle and the deepening of their periphery and dependent status.

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