

EXPECTATIONS AND REALITIES OF "PIVOT TO THE EAST" POLICY

The author analyzed the data on the Russian economy and the economy of the Russian Far East describing the macroeconomic dynamics, external economic relations, and the reproduction proportions. The article examines the formation process of subglobally oriented public economic policy in Russia after 2010. The process of changing the geographic vector of economic policy is considered in terms of modifications to the geographic structure of expected growth in the export rent of Russia, and also in the context of the shift in the center of resource concentration to build a new pole for the growth of the national economy. The article provides an overview of macroeconomic trends and analyzes the factors of the cyclic development of Russian economy. It describes the dynamics in geographic structure of external markets. The approach used in the article is based on the hypothesis that the restructuring of foreign trade interactions is insufficient for reformatting the economic policy and, to achieve this goal, it is critically important to implement the institutional integration in the new integration space. The article examines the trends and patterns that explain the parameters of the equilibrium of the economic system in the Russian Far East, as well as the opportunities for transition to the new equilibrium levels. It discusses the relationship of investment and institutional factors in the modernization and formation of stable and positive macro-economic and structural dynamics in the region. The author reviews the interpretations of threats and opportunities of economic development of the Russian Far East, most commonly found in the Russian and foreign scientific literature, including the impact of demographic trends, structural modernizations, competitive environment factors, and institutional innovations. I examine the impact of the Chinese One Belt One Road initiative on the prospects for implementing the internal and external Eastern economic policy of the Russian Federation.

Keywords: Asia-Pacific region, Russian Far East, foreign trade, economic crisis, international cooperation, institutional environment, growth factors, macroeconomics, migration, investments, multiplier

Introduction

After the crisis of 2009, there was a significant increase of attention to the development of the Eastern regions of Russia in general and formation of the Eastern export base for the Russian economy. Ensuring a stable growth for the net exports and, thereby, for foreign trade rent is a fundamental factor both for the economic growth and for maintaining the role of the state as a major player providing social stability and sustainability of political and economic order through the distribution mechanism of the federal budget.

It was this area that experienced the serious problems. By that time, the main testing ground for foreign trade expansion was the European market. But the opportunities for extensive growth of export revenues on that market have been exhausted as a result of increasing market competition and restrictive regulation of the European Commission in the energy markets. At the same time, Russia is still not ready to use the structural and technological modernization to intensify the withdrawal of the foreign trade rent. Raw materials continue to be the only structural niche for the extraction and increase of the rent.

Therefore, the continuation of the course aimed at extensive development by using the external factor objectively required to seek a new spatial niche. Russian began to see such new economic space in Eastern Asia, including China. This has become even more evident in 2014, when the development of economic ties with Europe was even more aggravated because of the Ukrainian crisis.

The pivot to the East was based on the belief that the Eastern direction provides more opportunities for continuing the extensive extraction of the export rent, since the Eastern markets were in dire need of Russian raw materials, and East Asia was a potential strategic investor for Russia that could replace the US and the European Union in sharing of technologies. Another attractive aspect was the fact that the Asian countries were not hostile towards Russia and were not imposing on it their own rules of game under the guise of arguments on their undisputed value-based leadership.

These assumptions are formulated as an axiom but, in fact, they are not so, as they mask some serious obstacles that specific to the case of East Asia: 1) A "bad history" syndrome, because Asian partners may not be objectively convinced in the irreversibility of the current "pivot" because the 1987 declaration on the pivot of the Soviet economy to the East were cancelled after 1991 in favor of the

Eurocentric reform model, and the current "pivot" intensified only after the aggravation of political relations with the Europe; 2) High level of non-tariff barriers prevailing in Asian economies, which hampers the liberalization of markets, especially the market entry of new major players in non-energy goods; 3) Exaggerated assessments of dependence of the Asian market on Russian raw materials, because China and East Asia have diversified their sources of raw materials, and the Russian raw materials may become critical only in case of a blockade imposed on sea trade routes; 4) Reassessment of whether it is possible to substitute the Euro-Atlantic direction in terms of finance and technology by East Asian direction, as financial transactions with China through the major banks are blocked by sanctions, and other East Asian countries cannot at all act as financial donors for Russia [2, pp. 81–104]; Lack of substantial technological capabilities in East Asia (in part, excluding Japan), which makes the joint projects in the area of trade and military-technical cooperation the only opportunity for cooperation on the East Asian direction in the near future; 5) For Asian countries, the basis for cooperation is the economic presence of Russia in Asia, and the trade relations on a very limited range of products are insufficient to create such basis, as it requires the increase of not only investment, technological, and humanitarian cooperation but also the institutional cooperation that can rely only on tangible general economic potential of Russia in East Asia [3; 4].

This, of course, involves increasing the economic potential of Russia in Northeast Asia, that is, ensuring greater economic "visibility" of the Russian Far East and Eastern Siberia. This also included the transition to a new level of infrastructure building in the Russian Far East, because the entry into new economic space by using the old structural basis required the formation of new infrastructure corridors for the exports. These corridors could pass only through the Russian Far East [5, pp. 286–289]. That region had to be presented to the East Asia and, generally, Pacific community as economic and infrastructural "ambassador" of Russia, which had to be recognizable.

From this point of view, the Russian Far East should become a developed region not just in the sense of old Soviet planned economy (comprehensive nature, self-sufficiency, statistical dynamism), but in terms of building a comfortable infrastructure for intra- and interregional mobility, comfortable and comparable to East Asian levels of development in the area of medicine, education, cultural environment, utilities and social infrastructure (housing, landscaping, environmental protection), and favorable business environment.

Therefore, a compulsory element of the "pivot to the East" should have been not just the formation of the main export-carrying infrastructure in the Russian Far East (including roads, pipelines, power grids) to maintain, in the immediate future, a forced course for extensive expansion of exports, but also to ensure the general economic development of the Russian Far East.

Of course, in reality, there is nothing particularly new in the desire to develop the Russian Far East economically and strengthen the integration cooperation with the Asia Pacific. This policy has a long history, but its forms, tools and accents, of course, were constantly changing.

Russian Economic Trends

It took 2 years for the Russian economy to recover after 2009 crisis. In 2011, the GDP growth rate rose to its pre-crisis levels. However, since 2012, the Russian economy began to enter a new phase of stagnation. Although the world prices of hydrocarbons and other raw materials were still high, the growth rate began to decline (Fig. 1). The reasons are related to fundamental factors underlying the growth of the Russian economy.

First, after 2009 crisis, the domestic effective demand was recovering very poorly. In 2000–2007, the real wages in the economy increased 1.5 times; but in 2008–2015, they grew by only 18 %.

Secondly, there were no changes in the efficiency of production factors. The contribution of capital even declined slightly (from 55 % in 2000–2007 to 53 % in 2008–2015), as did the contribution of labor (from 45 % in 2000–2007 to 43 % in 2008–2015). Therefore, the overall efficiency of production has not improved and failed to act as a growth factor for limited domestic and external demand.

Thirdly, since the fall of 2012, the world oil prices began to decline reflecting the stagnation of external demand for the main export item of Russia. Although, until the middle of 2014, their level was still above \$100 a barrel, the ended growth of oil rent and relevant revenues to the federal budget was a painful outcome for the Russian economic dynamics. Overall, since 2013, the decline in oil prices has led to the fall of foreign trade turnover from \$844.2 billion to \$441.6 billion in 2016 (almost by 48 %), with the value of net exports decreasing by 58 % during that period. This reduced the opportunities for

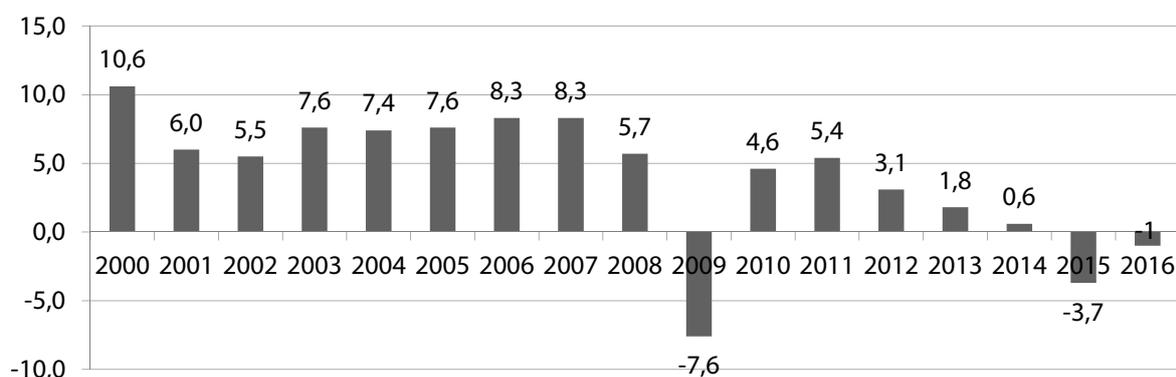


Fig. 1. *The growth rate of Russia's GDP, %*

investment. As a result, since 2013, there was a decline in the physical volume of investments in fixed capital, which accompanied by the outflow of capital from the Russian economy. In 2013–2016, the total decline in investments was 41 percentage points.

The above causes for aggravating the general economic situation were important, but not sufficient to trigger the economic crisis. During 2007–2008 crises, the miscalculations in macroeconomic policy and institution building caused a more acute manifestation of negative trends in the Russian economy than in the economies of other BRICS. This was observed at the highest rate of GDP decline for that group of countries, which contrasted with remaining a high level of world oil prices. The same miscalculations caused an extremely weak growth of the Russian economy in 2009–2013, despite the improvement in the lending terms on the European financial markets and in Russia [6; 7, p. 26; 8, pp. 7–15].

However, although domestic demand and the efficiency of production factors were declining, in general until 2014, the cyclical factors, namely the domestic consumer and investment demand, demonstrated fairly acceptable dynamics to support albeit low but still positive economic growth. In particular, up until Q1 2014, there was an increase of the investments in fixed capital (120 % in 2013 compared to 2009) and in the consumer demand, which grew until Q3 2014 (in 2009–2014, the increase was 135 %) [9].

There were two general reasons of why the Russian economy entered into crisis—first, this was the case of institutional failures and, secondly, the structural inadequacy of the economy.

In terms of market structures, the Russian economy was formed as a bi-sectoral one. One part of the economy, including the social services sector (education, health, and even science), intangible services, construction, passenger transport, small- and medium-size businesses, industries manufacturing the end consumer goods, operates in competitive markets. The second part includes the main line transport, extractive industry, major banks, state corporations, production and distribution of electricity and heat. It is monopolized and controlled by the state (both de facto and de jure).

The economic policy of the state is also bi-sectoral. It is built on the principles of market liberalization when it comes to the first sector of the economy, and it is based on state monopoly for the second sector. In this case, the general envelope of the state economic policy is the policy of financial liberalization in a global context, which ensures that the rent income both from foreign and domestic operations is concentrated in the monopolized sectors of the economy.

The need for external financing of the Russian economy is constantly cited as the main reason for maintaining such economic structure and economic policy. For its part, the external financing turns out to be necessary because there is not enough liquidity to finance the investments required for the monopolized sector. This explanation has obvious flaws.

The monetization of Russia's GDP before the crisis was about 50 % while the world's average was more than 100 %. This created a premise for a relative shortage of money supply in case of stable accumulation. After recovering in 2010, the economic growth could not be supported by the rising money supply. The shortage was increasing throughout the pre-crisis period. In terms of money supply, the Russian money market stood at 0.8 % of the global market, although before the devaluation of its national currency Russia was creating almost 3 % of world's GDP. The shortage of money supply required to finance the accumulation couldn't be covered by domestic sources, given the restrictive anti-inflationary policy of the Bank of Russia. In this environment, the economic agents were looking

on their own for the sources of investment financing. The most effective source was provided by external borrowing. Servicing the external debt generated by this borrowing, and foreign investments in financial assets attracted by high-interest rates have objectively turned the capital outflow and periodic turmoil in the financial market into the inevitable price for implementing the selected economic and financial policy. In 1995–2015, Russia imported \$1.3 trillion in the form of foreign investments, while withdrawing from the country over the same period almost \$3 trillion in the form of capital outflows and sterilization of foreign exchange earnings in foreign bonds [10, pp. 7–13].

The above describes the objective reason for the premises of economic crisis in Russia. But the transformation of abstract reasons into real macroeconomic events requires a real cause. Such causes were the external shocks, including the market shock and structural and fiscal shock synchronized over time.

The market shock was in the form of catastrophic fall in world oil prices, which dropped from \$112 per barrel in the mid-2014 to \$30 in 2015, with a subsequent correction. However, even now, they stay at about \$50–55 per barrel. It is impossible to explain this decline by financial and economic or technological changes in the demand of parameters. Rather, it was (at least for the Russian economy) a result of sectoral monopolism that blocks the technological innovation, as well as the destruction of science and technology system aimed at supporting the sectoral economic dynamics and structural modernization, which began in 1992 and still continues. All this led to the failure in the area of system analysis and forecasting of the environment in the sectoral markets, in particular, to underestimation of a technological breakthrough in the oil and gas industry (shale revolution).

The decline in export prices led to an almost 10 percent reduction in total income (both for economic agents and state budget), as 70 % of exports and 40 % of federal budget revenues are associated with oil (production, exports, and processing). This triggered a sequence of negative effects, including the decrease money supply—increase in the price of money—emergence of negative expectations of investors and households—reduction in investments and consumer demand—reduced growth rates—lower incomes of employed population—job cuts. In previous years, the economy has seen the emergence of accelerators provided, first, by the increase in state and personal consumption and, secondly, by the higher value of commodity exports.

However, there were no compensators of negative impacts. Such compensators could have been new sectors of the economy and increased diversity activities in traditional sectors that would have generated the domestic demand regardless, a certain extent, of external environment. However, the resources (both financial and institutional) required for this have been focused on image-related mega projects that absorbed export revenues needed for investment in the development of the "new economy."

The structural and fiscal shock took the form of sectoral and financial sanctions. The most obvious effect of this shock was the outflow of capital from Russia, which increased by almost 4 times in 2014 compared to 2013. This was caused not only by the financial sanctions but also the real prospects of corporate default in connection with extremely high private external debt amid the sharply reduced opportunities for its restructuring after the imposition of sanctions, which increased the probability of defaulting on payments to service that debt [11]. By 2014, the private external debt of Russia was \$665 billion, a 20 times increase since 1998.

There was a steady expectation of the currency shortage to service the foreign debt and pay for imports. These expectations were the reason why the Central Bank introduced the floating exchange rate for the ruble. It was another manifestation of immoderate liberal monetary policy in the face of a looming crisis. In fact, there was an alternative to this solution, even if we agree with the opinion of the Bank of Russia that the peak payments on external private debt (much of which was a debt of state-owned corporations and banks) were underestimated. In 2014, the currency requirements for servicing the foreign debt amounted to about \$35 billion. The approach of peak debt payments increased this requirement to approximately \$100 billion. But when we consider the demand for currency in order to pay taxes and finance the imports, that amount would rise to \$570–600 billion.

At the same time, the supply of currency revenues from exports was \$470 billion. In addition, the foreign currency interventions made by the Bank of Russia in 2014 amounted to almost \$80 billion. In other words, the aggregate supply of the currency is estimated at \$550 billion. The resulting deficit in the maximum amount of \$50 billion would have led to 10–15 percent devaluation of the ruble. Even with the outflow of capital for political reasons (which increased the demand for currency by

almost \$70–80 billion and, during the peak shortage of foreign currency, up to \$130 billion), the extent of devaluation would have to be 20–25 %. In general, this would be in line with the devaluation of currencies in other commodity-exporting countries (Canada, Australia, Saudi Arabia). Such extent of the devaluation reflected the objective overvaluation of the ruble, which emerged as early as by 2013. This was exactly the extent of devaluation, which occurred by October 2014 and reflected the new equilibrium value of the exchange rate.

Table 1

Average annual RUB/USD exchange rate

Period	Exchange rate
2005–2008	26.8
2009–2014	30.8
2015–2016	56.5

Source: Data of the Bank of Russia for the relevant years, calculations of the author.

But the real devaluation in 2015–2016 was, on average, almost 75 % compared to the previous period after 2009 crisis (Table 1). There were two reasons for such devaluation. First, the foreign currency that was coming to Russia through foreign trade channels could not be mobilized for ensuring the balance of payments stability, as the government and the Bank of Russia refused to tighten the currency regulation rules in order to concentrate the bulk of currency flows to ensure the equilibrium in the FX market. Secondly, the

opportunities existing for tightening the control over the movement of capital in order to restrict the capital outflows were not used. The government and the Bank of Russia argued that this will only lead to higher costs related to the movement of capital, without changing the overall outflow.

As in 1999, with some time lag, the currency devaluation became a temporary compensator by increasing the competitiveness of certain export-oriented production facilities and production facilities that had the capacity to substitute the imported products (in the chemical, light and food industries). Another compensator was the regime of sanctions in some sectors of the economy (microelectronics, electrical engineering, power engineering, agriculture, and pharmaceuticals), as the failure to supply the components and finished products forced to implement a resource maneuver in favor of these industries. However, the effect of these compensators is limited by the decline in the manufacturing of end products amid the reduction of overall demand in the economy, which prevents to preserve the trend towards the growth in the manufacturing of raw materials and semi-finished products.

In general, the current Russian crisis should be considered in two aspects. First, it should be considered in terms of the impact produced by the rigidity of institutional formats and, secondly, in terms of reproduction cycles.

The logic of formation and implementation of reproduction cycle phases is present in the current crisis. The concentration of resources in the sectors that use the most dynamic and stable segments of the aggregate demand, and the increase of price competitiveness in the export sector of the economy have mitigated the fall in production (7.8 % in 2008–2009 and 3.4 % in 2015), despite the similarity of the main macroeconomic parameters describing these crises (amount of capital outflow, reduction of gold and foreign exchange reserves, rise of inflation).

However, the remaining rigidity of institutional formats does not allow to convert the effects of structural compensators into the change of structural parameters and behavioral responses of the economy. The reason is the invariability of the management, personnel, ideological (in the sense of economic concepts) foundations of the Russian economy.

The structural and behavioral shifts that guarantee the transition of the economy to a qualitatively new level of organization and dynamics are possible only in case of changing the principles of financial policy, increasing the degrees of freedom for economic agents operating in a competitive environment, and expanding the space of that competitive environment. Otherwise, the inertia of exiting the recession will fade and, instead of transformation of economic recovery into a new round of economic growth, we can see the preservation of economic stagnation for a more or less lengthy period of time. In that case, the acceleration of the growth will require yet another external or internal shock.

From Q4 2016, the Russian economy registered the statistical growth. GDP grew by 0.3 % in Q4 and by 0.5 % [12] in Q1 2017 compared to Q1 and Q4 of 2015 and 2016. In this regard, the international organizations forecast that, in 2017, the growth of Russian GDP will be at the level of 101.4 % (OECD and IMF) and 101.3 % (World Bank) [13]. In Russia, the growth for 2017 is projected at 102 % although, in January, the forecast of the Russian Ministry of Economic Development was 100.6 %. The reason for improved domestic and international forecasts is the expected recovery in investments and international trade, in particular, the consolidated exports at the global level [13]. Of course, the overall increase of demand in the global economy will lead to somewhat higher demand for basic export items

of Russia, and this is reflected in the expectations of experts. These forecasts are also supported by the fact that S&P revised its sovereign rating of Russia from "stable" to "positive" [12].

However, until now, there were no changes in the fundamentals that determine the long-term trends in the development of Russian economy. The hopes continue to be associated with the future change in the trend of world prices for hydrocarbons. These hopes may be justified or not. The probability of the latter is very high.

First, even the improvement in the global macroeconomic environment does not guarantee the emergence of the gap between the demand and supply on the global market of hydrocarbons, given the existing excess of potential supply over potential demand. In the period of low prices, virtually all producers and state budgets of producing countries suffered considerable losses in the form of lost revenues. Most likely, they will view any improvement in the market environment as a signal to boost the supply as much as possible in order to redistribute to their benefit the super profits accumulated in the previous period by the importing countries. This may result in the disruption of the balance between supply and demand at the new levels of demand and cause the return of export prices to lower levels.

Secondly, the rapid technological progress changes the structure of energy consumption and unit consumption standards, which objectively reduces the global demand.

So far, it is evident that we see only short-term structural and institutional effects, which supported the economy but are associated with external factors rather than fundamental shifts in the Russian economy. The growth in the food industry and generally in the agro-industrial complex has been achieved through the increase of investments amid the import substitution. The growth in metallurgy is caused by the improved market environment. State orders in the military-industrial complex and infrastructure sector also supported the economy.

Net exports and domestic demand continue to be the fundamental factors driving the growth of Russian economy. Under the current structure of exports, the dynamics of net exports are inhibited by external economic environment and can be activated only in case of real structural and technological modernization of the Russian economy, that is, in the case of replacing the exports of hydrocarbons by exports of other goods and services not just in terms of their share but in terms of volumes. This is impossible to achieve in a short period of time. However, even in the long term, it implies intensive investments in manufacturing and management technologies. Since the savings cannot be viewed as a source of investment in the absence of ways for transforming into investments and low level of mutual trust between the state, private businesses and population, it is proposed to increase the total debt rate from the current 100 % of GDP to 150 %, that is, to attract about 40 trillion rubles of investments to the economy within 10 years [14]. But this proposal is realistic because, with the blocked external sources of financing, the total debt can be increased only by transforming the savings into investments which, as already noted above, is unrealistic without serious institutional transformations.

Overall, even with the improved general macroeconomic situation (relative stabilization of the ruble exchange rate, gradual reduction of the interest rate by the Bank of Russia, ended fall of GDP volume, relative stabilization of oil prices), the most optimistic estimates of economic growth expected in 2017–2020 (if it happens, and will not be derailed by extreme external or internal factors, such as the collapse of oil prices, collapse of the ruble exchange rate, excessive strengthening of the ruble, etc.) are in the range of 1.5–2 % a year. In this case, the Russian economy will face a long stagnation, with periodic downturns as a result of cyclical shocks or external shocks generated by non-economic reasons. This is even more likely, given that the Russian economy increasingly lags behind in terms of changing its general paradigm of structural and technological development. Accordingly, the gap between the Russian economy and sector of developed countries is widening [15, pp. 279–282].

Pivot to the East

The substance of the state economic policy towards the Eastern parts of Russia and the Russian Far East, in particular, went through substantial changes just over the past 30 years. We can identify several stages that are the most general in terms of regulation concept.

In 1987–1991, the development of the region was based on increasing the centralized state resources intended to maintain and strengthen the traditional sectors of the economy and social infrastructure.

In 1992–2006, the main idea was self-development of the region with the minimum support of savings by state resources and orientation of regional economy to the markets of neighboring countries.

In 2007–2012, largely in connection with the preparation for the APEC summit held in Vladivostok in 2012, the development of the region has again become a priority for state regulation and was based on increasing the public demand by expanding the public investments, which stimulated the economic growth in the region. The public investments came to the region through state corporations and private corporations oriented on public demand and were aimed at developing the industrial and infrastructure base of the export sector.

Since 2013, the foundations of the state policy to stimulate the development of Eastern regions were again reviewed in connection with the obvious fundamental problems that impeded the success in the development of the region.

First, there was a deterioration in the overall macroeconomic situation in Russia and the funds of the federal budget started to be redistributed in favor of non-economic expenditure items. It became impossible to maintain a high level of public investments in the regional economy, and the major corporate projects were completed or about to be completed.

Secondly, maintaining the high growth rates in the Russian Far East required to continuously increase the expenditures of budgetary resources, which became impossible after 2009 crisis amid the shrinking the state budget revenues.

Thirdly, at a certain level and growth rates of investments injected from the state budget, they can ensure that the growth of the regional economy outpaces the national growth rates, as desired by the Federal Center. However, in this case, it is impossible to achieve the development of the region proper, which involves changing the quality of social, communal and business environments in the region, establishing the mechanisms of intra-regional generation of revenues, ensuring the excess of alternative expenses over the alternative revenues in combination with the effective mobility of people and economic resources. Such result implies a transition to the cultivation of effective economic institutions accompanied (and not preceded) by financial injections.

The clear understanding of these interrelated problems caused a change in the focus of the Russian Eastern policy as early as in 2013. This policy began to take shape as two relatively independent, although related fragments.

The first one involved the further development of export infrastructure for scaling-up the foreign trade operations of Russian exporters in the Eastern direction.

The second one included the transition from higher public investment in industrial and infrastructure projects to the implementation of institutional innovations in the Russian Far East, which are designed to make the region prosperous and modern by improving the human capital, attracting people and private entrepreneurs both from Russia and abroad.

In 2000–2008, many of the systemic problems of the region have been eliminated or mitigated. The commissioning of new power generation capacity, construction of electric grids, completed construction part of the project to develop the hydrocarbons on the Sakhalin shelf allowed the region to make a transition from an area with energy shortage to the area with energy surplus. The modernization of Trans-Siberian Railway and the beginning of reconstruction and development of Baikal-Amur Mainline, along with the adjustment of tariff policy for the railway transport and development of seaports, has greatly improved the condition of transport infrastructure. There were substantial changes in the investment area and rapid development of the export-oriented sector of the economy [1, p. 18].

In 2007–2012, the Russian Far East has seen the construction of infrastructure to hold the APEC forum, a major project with investments coming from outside the region. But public investments failed to substantially reduce the risks for investment in the regional economy. The inflow of private capital since 2011 was replaced by its outflow and the search for investments has become a problem for the further development of the companies. In the region, the index of investment risk remains higher than the national average¹, which casts doubt on the effectiveness of implementing the task to build a favorable investment climate in the Russian Far East. The investments in the image-related APEC project and in other regional infrastructure financed by the federal budget and extra-budgetary funds failed to trigger a multiplier effect for the regional economy. In average during 1992–2014, 1 ruble of investments in the fixed capital increased the GRP of the Russian Far East only by 0.14 rubles, which is lower than for Russia in general (0.20 rubles) [16].

¹ Despite its decline, which apparently was caused by the overall alignment of risks between the regions of Russia. The index of investment risk is assessed by Expert RA, a rating agency, and it represents a combination of social, economic, financial, crime-related, environmental, and management risks.

In the Russian Far East, major investment programs exist mostly in state corporations that receive support in the form of benefits and subsidies. In the ranking of largest companies in the region, almost every third enterprise has a state-owned capital and a larger share of consolidated revenues. In reality, the share of state and municipal enterprises in the volume of regional products and services is even greater. The closed nature and opacity of businesses in the Russian Far East have been exacerbated by the large Russian corporations, which take over the joint-stock companies and turn them into dependent entities, often by taking their assets out of the regional jurisdiction.

Despite these problems and the downturn of 2009 (which, by the way, was weaker than generally in the Russian economy due to the foreign trade effect), the entire period of 2000–2016 was relatively successful for the region (Table 2).

Table 2

Comparative dynamics of macroeconomic trends, 2009 and 2016, % (2009 = 100 %)

Index	Russian Federation	Russian Far East
GDP/GRP	111.9	111.5
Industrial production	115.4	140.9
Investment in fixed capital	108.1	91.6
Exports	80.5	137.5
Imports	106.4	111.1

Of course, the objective mentioned in every official document on the development of the region to attain such growth rate in the Russian Far East (RFE) that would outpace the average growth in the Russian Federation (RF) has not been achieved (Fig. 2). But it cannot be achieved without increasing by many times the investment multiplier, the low values of which are determined by the fact that most

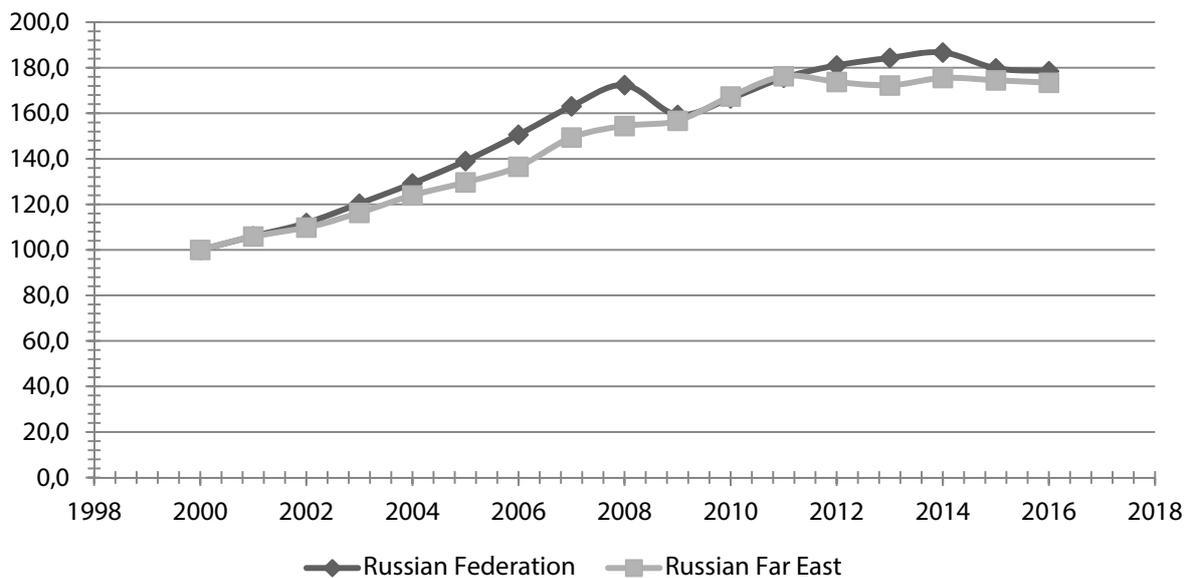


Fig. 2. The dynamics of GDP/GRP in the Russian Federation/Russian Far East, %, 2000 = 100

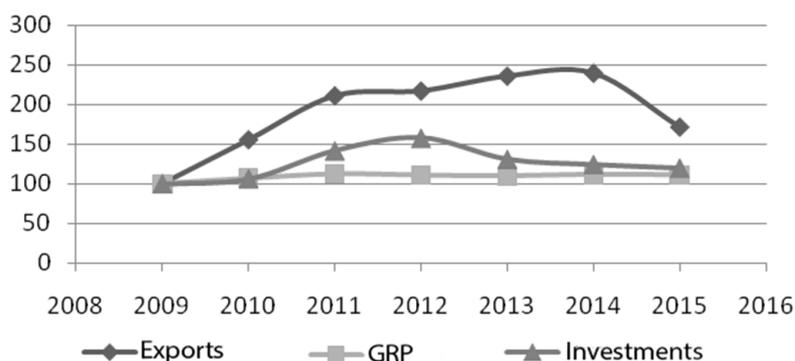


Fig. 3. Exports, investments, and GRP in the Russian Far East, % (2009 = 100)

investments are made in infrastructure and social projects, and the localization of economic effects within the region is extremely low [17].

The investments in fixed capital provide the real stimulus for the growth of regional exports, rather than for the value of the Gross Regional Product (Fig. 3), because a significant part of investments goes to the construction and development of export infrastructure and to the export projects implemented in the region.

The value structure of exports from the region has undergone substantial changes, which show that, over the past 15 years, the Russian Far East turned into the oil-exporting region following the start of large-scale hydrocarbon exports from the Sakhalin shelf. The product structure of exports from the Russian Far East in the total exports of Northeast Asia is presented in Table 3. The concentration of almost 99 % of regional exports in both traditional and new products of commodity specialization (fuel and wood products, nonferrous metals, metal ores, fish products) demonstrates an increasingly stable specialization, which is effective in terms of commercial placement criteria and is new compared to the Soviet period. This also shows that, objectively, the region begins to acquire a rational division of its areas of investment, in which the public investments are concentrated in the infrastructure segment, while the private investments are in the segment of extraction and exports of natural resources. This can be clearly seen in the area of foreign direct investments. 89 % of all foreign direct investments accumulated in the region by 2015 have been the investments in the Sakhalin region.

Table 3

The product structure of exports from the Russian Far East to Northeast Asia, %

Product group	2000	2010
Total	100	100
Machinery, equipment, and vehicles	16.5	0.8
Fuel, minerals, metals	34.9	84.7
Wood, pulp and paper products	17.3	4.4
Food products	23.4	9.9
Other	7.9	0.2

Reducing the outflow of population from the Russian Far East is one of the fundamental objectives, which the federal authorities try to achieve in the entire post-Soviet period trying. This is regularly mentioned in the media as the most important argument for adopting the special measures to stimulate the development of the region. The decrease of population in the Russian Far East by 1.8 million people after 1991 (20 % of the population as of January 1, 1992) is a fact, but this is not limited exclusively to the Russian Far East (Table 4). Nevertheless, the scarcity of population is very widely used as an argument for adopting all sorts of extraordinary and "miraculous" measures.

Table 4

Dynamics of population in Russia (excluding Crimea), million people

Federal district	1991	2015	Growth (+) / Decline (-)
Central	38.1	39.1	+1.0
North-Western	15.2	13.8	-1.4
Volga	31.9	29.7	-2.2
Southern	13.6	14.0	+0.4
North Caucasus	6.6	9.7	+3.1
Ural	12.7	12.3	-0.4
Siberian	21.1	19.3	-1.8
Far Eastern	8.05	6.2	-1.85
Total for the Russian Federation	147.2	144.1	-3.1

In reality, the reasons for the outflow of population from the region in early 1990 were objective, including, first, the reduction in the scale and change in the structure of economic activities in the region during the 1990s; secondly, the desire to protect their property rights in the new states (the earlier guarantees for the right to preserve their housing in the "native" regions provided to those, who moved to the Soviet Far East, were automatically lost by people originating from the former Soviet

republics); and thirdly, the loss of confidence in the assumption that the income earned in the Russian Far East would provide guaranteed savings for the future. In the past, it was this guarantee, and not even the then level of nominal income, that acted as incentive for migrants coming to the region.

The efforts to develop the infrastructure for export-oriented transit in the Russian Far East led to some progress in strengthening the foreign trade activities of Russia in the East. In 2008–2016, the share of Asia-Pacific markets in the Russia's foreign trade turnover increased by 10 percentage points from 20.4 % to 30 % of the total foreign trade turnover, amid the decline of the European Union's share from 52 % to 43.1 % over the same period. Naturally, the Asian markets are especially important for the Russian Far East, as the share of region's exports to Northeast Asia was about 77 % in 2010–2015.

But some strengthening of foreign trade positions in East Asian markets is insufficient for changing the geographical vector of development [18]. The objective is broader and includes the large-scale integration with the Eastern segment of the global economy. This requires integrating the production factors in the markets, establishing a common institutional platform, engaging the entire economy of the Russian Federation the positioning the country in the Asia Pacific and Northeast Asia as a powerful economic force.

Institutional Drift

Establishing a common institutional platform for integration with Asia-Pacific countries and, at the same time, creating the prerequisites for attracting private investments for development of the Russian Far East is a key task since 2014. To address it, there are several proposed institutional innovations which, for the first time since 1987, received the status of federal laws.

One of such innovations, which was suggested as an absolutely new and, of course, effective development tool, is the concept of Priority Development Area (PDA), which provides for the development of basic infrastructure by the state and tax and administrative benefits in the selected areas [16, 19].

A similar experience was used earlier in Russia and, in particular, in the Russian Far East. The first attempt to establish the free economic zone "Nakhodka" in the Russian Far East was made as early as in 1989. In the early 1990s, several free economic zones were established or, at least, proclaimed both in the Russian Far East and other Russian regions. Some of them (in the Kaliningrad region and Magadan region) existed until recently. Unlike many well-known local economic development zones in various countries (France, China, the Republic of Korea, Taiwan, Singapore, Thailand, Malaysia, Japan), in the Russian zone, the state (or regions) provided only some benefits for businesses. The infrastructure, pricing, administrative regimes remained outside the government policy. At the same time, the success of free economic zones has not been guaranteed, even if the state (regional) patronage was extended to these areas.

The proposed model of priority socio-economic development areas takes into account the need for systemic state regulation with regard to the terms of investment and conditions of economic activities. The principle of shared responsibility of the state (regions) and economic agents is observed in the form of public investments in infrastructure, minimization of administrative barriers for businesses and maximum benefits minimizing the costs of economic agents.

However, this too does not guarantee success. The main component of a positive result from designing such "institutional havens," that determined the success of free economic zones, for example in China, are opportunities for effective entrepreneurship in these areas. The availability of tax, tariff, customs and other benefits is a pleasant bonus for businesses. However, the main incentive is the opportunity to generate a guaranteed profit, which is determined not only by the level of price competitiveness, but also by the scale of production, the existence of efficient and cheap factors of production, the capacity of available markets.

The institutional innovations are not just aimed at attracting the investments, but they should serve as a development tool for the Russian Far East by simultaneously acting as a pilot project for subsequent implementation in other regions of the Russian Federation. It is from this point of view that the effectiveness of priority development areas, as the main tool of territorial development, cannot be accepted as an axiom. So far, there is no experimental evidence to prove this thesis, and it may appear, of course, only after the accumulation of actual data on the results of measuring the direct and indirect effects from the use of this tool.

It is possible that, in the future, the positive experimental results will outweigh the negative effects that are obvious from the theoretical point of view. But, currently, we can use only the theoretical hypotheses, according to which, in order to perform their function of stimulating the development of economic and social system of the region, the priority development areas should broadcast their positive economic effects (demand, competencies, standards, business culture, etc.) to the territories surrounding these local areas while ensuring the multiplication of agglomeration effect and consolidating the economic space.

This implies that the priority development areas are located within the concentrated economic activity zones that already exist in the Russian Far East (including such areas as Greater Khabarovsk, Greater Vladivostok, Blagoveshchensk, South Sakhalin, Komsomolsk-on-Amur). These areas have their own existing economic specialization, and their functioning economic agents are already positioned in relation to the markets. In theory, the establishment of priority development areas in these regions (in fact, some of them have been established there) should strengthen the existing effects by creating the competitive advantage centers. Such centers can act as the cores enhancing the endogenous effects in the territory. However, they can perform this function only with an explicit definition of competitive advantages provided to the economic agents by the institutional regime and benefits.

By themselves, administrative and tax preferences do not create competitive advantages. The latter ones are associated with special opportunities available in the market functioning of economic agents in the sense of exclusive technology, commodity, financial opportunities and access to qualified human resources, particularly favorable logistics, etc.

The task of creating real competitive advantages for economic agents is important for the development of the region, but it is not the only one. As noted above, the regional development implies meeting a number of conditions, including the modernization of communal and social environment, improving the quality of life for the population, raising the general level of income, transforming the transport and social infrastructure, consolidating the labor market, creating the support settlement centers, etc. This cannot be achieved only through institutional innovations. It requires need large-scale investments, and not in the backbone infrastructure, but in the communal, social and market infrastructure [1]. In turn, the investments in these areas may not be as effective without an adequate institutional support in establishing a regionally localized general institutional framework.

In this case, we can hope to design a region that is adapted to the standards of East Asia and, at the same time and because of this, has clear competitive advantages within the national economic space.

Conclusion

Objectively, a change to geostrategic vector of the country's economic policy reflects, on the one hand, the real shifts in the spatial organization of the global economy and change in the location of the main poles of global economic and political power and, on the other hand, the reduced opportunities for extensive increase of export revenues in the European market amid increasing competition on the part of new players and technological substitutes.

However, the attempts to substitute the Atlantic vector of development by the Eastern vector are being implemented within the paradigm of extensive development of the Russian economy in general and of its Eastern wing represented by the Russian Far East, in particular, as well as amid the conservation of existing institutional environment and management technologies. At the same time, in macroeconomic, structural, technological and institutional terms, both Atlantic and Pacific fragments of the global economy are developing and changing very intensively, which may result in a wider gap between the Russian and global economies not only in quantitative but, above all, in qualitative terms.

For the Russian economy, the "Pivot to the East" (which does not mean abandoning the Euro-Atlantic vector of cooperation, but rather aims at achieving the optimal balance between Western and Eastern vectors of the global interactions) should rely both on profound modernization of domestic macroeconomic policies and institutional environment, and the integration into the institutional forms of international economic cooperation in East Asia.

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