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**NEA ECONOMIC INTEGRATION:
RUSSIAN PERSPECTIVES**

The article examines specific features of the contemporary Russian economic model. Comparative dynamics of the macroeconomic indicators is analyzed. The assessment of scales and structures of interaction of economy of Russia and the Far East with the countries of the Pacific Rim and Northeast Asia is given. Problems of realizing of a course towards the East Asian integration are shown.

Economic growth, investments, economic cooperation, Northeast Asia, economic model, stagnation, exchange rate, regional development

**ЭКОНОМИЧЕСКАЯ ИНТЕГРАЦИЯ В СВА:
РОССИЙСКИЕ ПЕРСПЕКТИВЫ**

В статье рассматриваются особенности российской экономической модели на современном этапе. Анализируется сравнительная динамика основных макроэкономических показателей. Проводится оценка масштабов и структур взаимодействия экономики России и Дальнего Востока со странами АТР и Северо-восточной Азии. Показаны проблемы реализации стратегического курса на восточноазиатскую интеграцию.

Экономический рост, инвестиции, экономическая кооперация, Северо-восточная Азия, экономическая модель, стагнация, валютный курс, региональное развитие

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General Strategy

Since 1997 we could face three variant of «turn to East» policy in USSR/Russia. First one was connected with so called Gorbachev's Pacific maneuver (1987–1990) – I mean not only general declaration about pacific direction for soviet economy, but first lows for foreign investments and joint ventures with special incentives for the Fareastern' economic agents as well as the first State Development program for the Far East region. Second period (1992–1996) was connected with the transformation crisis in Russia, when the orientation to NEA markets had saved timber, fish, metallurgy, food processing industries as well as consumer market. And since 2006 the third period of Pacific integration of Russia in form of trade and investments have begun. It is based on foreign direct investments to the Russian Far East energy sector and enormous internal investments to transit infrastructure.

Up to date we can conclude that in case of trade some optimistic results in the Pacific reorientation were achieved as a minimum from statistical and macroeconomic point of view. Almost 25% of total Russian export is connecting with the APEC region (*figure 1*).

And the biggest part of it is the export to NEA countries, around 71% of the total

export to APEC. Though the EU up to date remains the trade partner № 1 for Russia, trade with APEC is growing up very fast (*figure 2*).

Main part of the Russian trade with NEA as well as with EU is energy products including crude oil and for last 2 years LNG. This is corresponding with general Russian export commodity structure which consists more than on 70% from energy goods (*figure 3*).

In future the energy sector of Russian export to the NEA will increase due to two factors. Problems with European energy market for Russian companies is the first. Troubles are connected not only with the modern Ukrainian crisis; it is only an indicator of system problems which include competitive policy of US as well as the desire of the EU itself to minimize the dependence on Russian energy resources' supplies. By the way the Ukrainian crisis from economic point of view can be reviewed as a strategic turning point in case of Russia–NEA economic ties. Economic sanctions declared by US and EU are seeing by Russia as strategic challenge which it look forward to. And main spheres where Russia has to look for new opportunities are not even trade but technological and investment exchange.

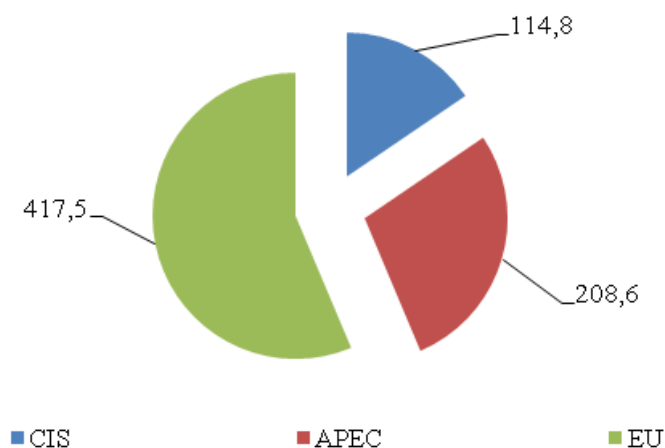


Figure 1. Russian Foreign Trade Turnover, 2013, \$ billion

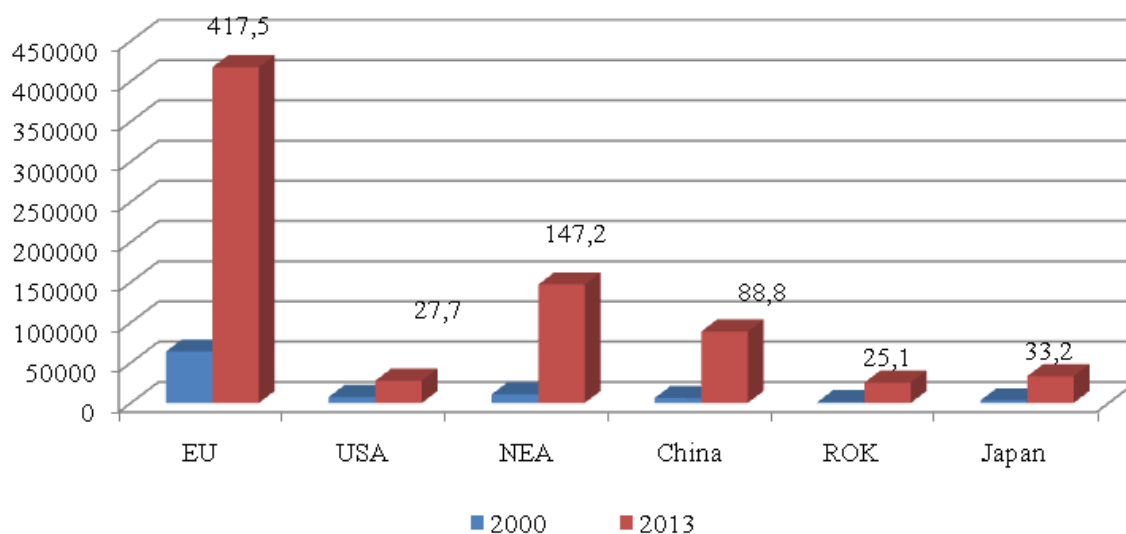


Figure 2. Russian Foreign Trade by sectors/countries, \$ billion

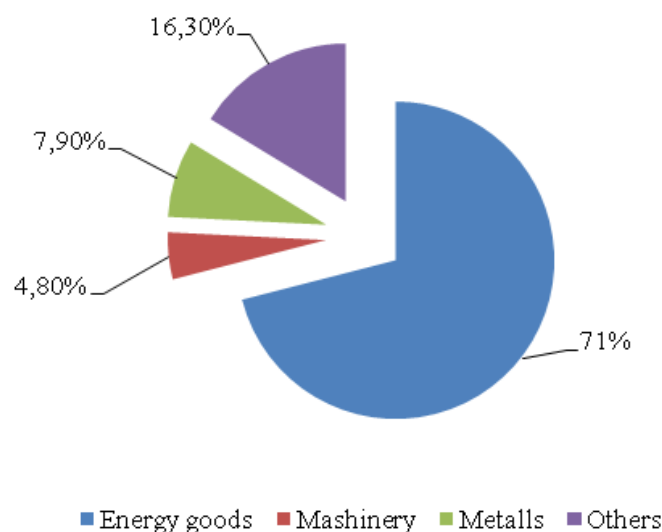


Figure 3. Russian export commodity structure, 2013

Though the average ratio «investment/GDP» in Russia is not enough high for developing economy (around 20–22%) and main «growth engine» is internal and external demand [3], investments are playing very important role first of all in energy and extracting sectors of the Russian economy which provide main part of federal budget incomes, more than 60% (*table 1*).

Since 2000 the volume of foreign in-

vestments to Russia increased more than 22 times (*figure 4*) due to an import substitution development after the 1998 financial crisis and opening of financial market.

Direct foreign investments consists only 2-3% of the total volume of investments to fixed capital in Russia (*figure 5*), but the most important thing is so called «other investments» (loans, securities and so on), which used for financing of domestic investments.

Table 1

Russian Federal Budget Incomes, 2013, trillion rubles

Total Incomes	12 020
VAT	3 575
Natural Resources Taxes	2 544
Incomes from Foreign Economic Activity	4 662
Others	1 239

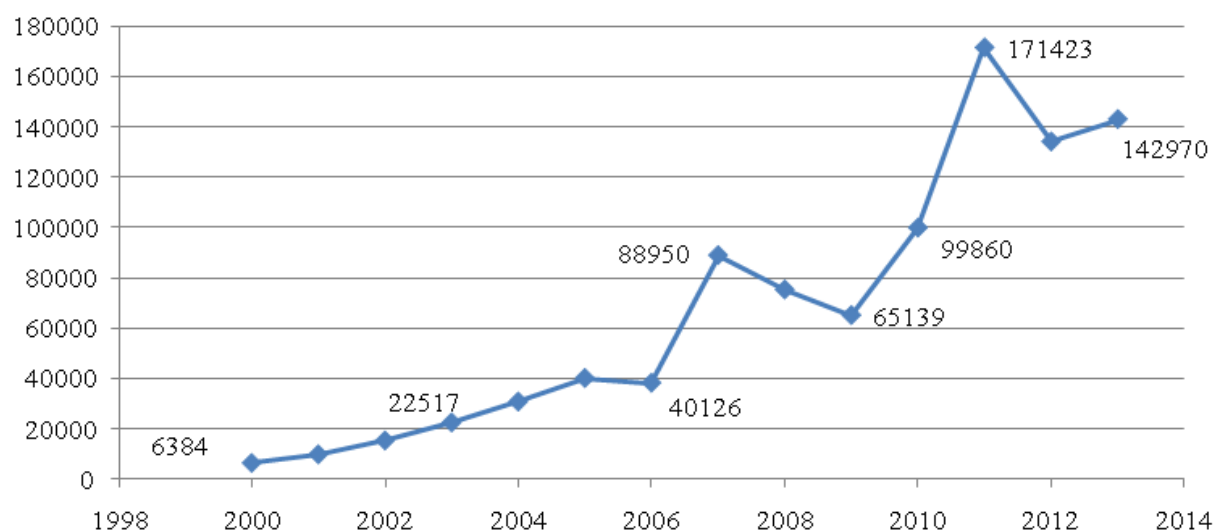


Figure 4. Foreign Investments in Russia, \$ million

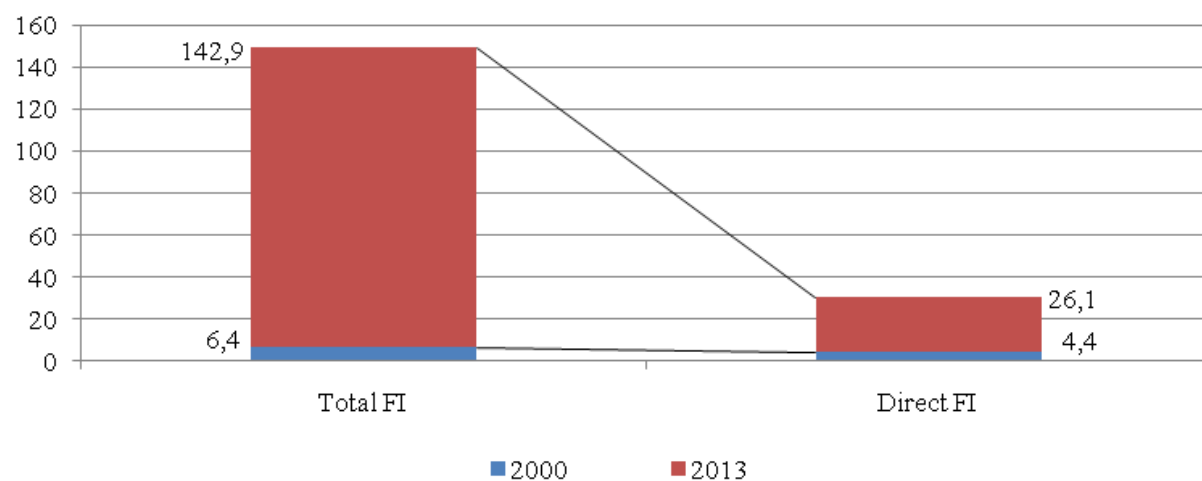


Figure 5. Foreign Investments structure, \$ billion

Note: Russian investments to fixed capital – \$1 145 billion (2013)

There share is 12–14% of the total Russian investments to the internal economy.

It means that Russia need to face the serious financial challenge from the Western sanctions and has to look for new financial sources not only because of possible troubles with current and future investment financing but also for supporting accumulating external debts services. The volume of Russian corporate external debt is not extremely but enough high, about 29% of GDP and 115% of national gold and currencies reserves (*table 2*). One of the alternative sources for external investment financing is the NEA and not only for the «sanction period» but after it too. By the way speaking about NEA in this context we must take into account mainly China due to uncertain position of Japan and complicated situation for ROK.

The second possible direction of external finance sources' diversification is BRICS which is one of the world's economic score concentrated 20–22% of the world GDP (*figure 6*). But if general economic potential of

this alliance is enough high, it's financial and institutional potential is not so optimistic now. During last BRICS meeting in Brazil first step towards constructing joint financial institution were done but it is very long way and first result on it maybe would be seen only in future.

Regional Instrument

Since the mid of 1960s USSR/Russia used the Far Eastern region as the main base and channel on the way to APEC and NEA. Until 2004 this region was a real main base for the trade and investment cooperation with NEA, giving around 75% of total Russian trade turnover and 80% of capital transactions. Now the situation has changed. After constructing the Trans Siberian oil pipeline and other elements of hard infrastructure including sea port and railways reconstruction such regions as Siberia and Ural began to play the growing role in Russia–NEA cooperation game. The Russian Far East became mainly transit territory for Russian trade with NEA

Table 2

External Debt of Russia, \$ billion

	Total Debt	Governmental	Corporate	Reserves
1998	182,9	149,9	33,0	17,7
2013	703,9	85,5	618,4	537,6

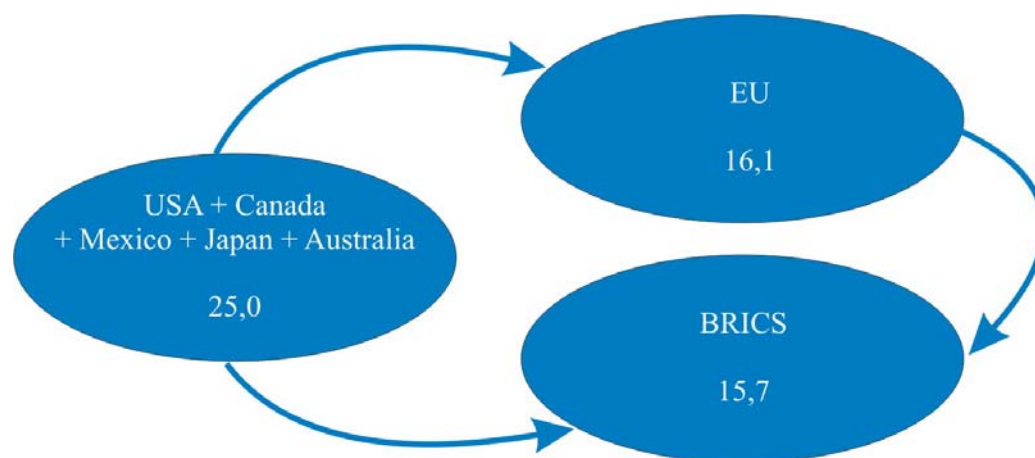


Figure 6. World Economy Scores

countries. During 2000–2013 all-Russia export to the NEA increased almost 14 times and the export from the Russian Far East 10 times. The share of foreign direct investment allocated in the Far East of Russia decreased to 50% as to 2013 in spite of the Sakhalin offshore oil and gas' extraction and export. But up to date the Russian Far East remains one of the most important «brick» in the Russian co-operation strategy in NEA.

Since 2003 Russia began to accelerate the investment dynamic in the Far East (*figure 7*) and main targets of these investments were the developing of transit infrastructure, the national prestige on Pacific and including

into export new natural resources. Investment growth rate in the region up to date is higher than national average indicator.

Of course main economic effect in the Far East can be describe as: «high investment's growth – high export growth – modest GDP growth» because export sector is the most effective field of production factors using and foreign market as well as in 1990s remains the most important factor of regional economic dynamic. *Figures 8–9* illustrated this effect. Mainly due to this effect the Far-eastern regional export value is up to date around 27% of all Russian export to the NEA in spite of Siberian regions expansion.

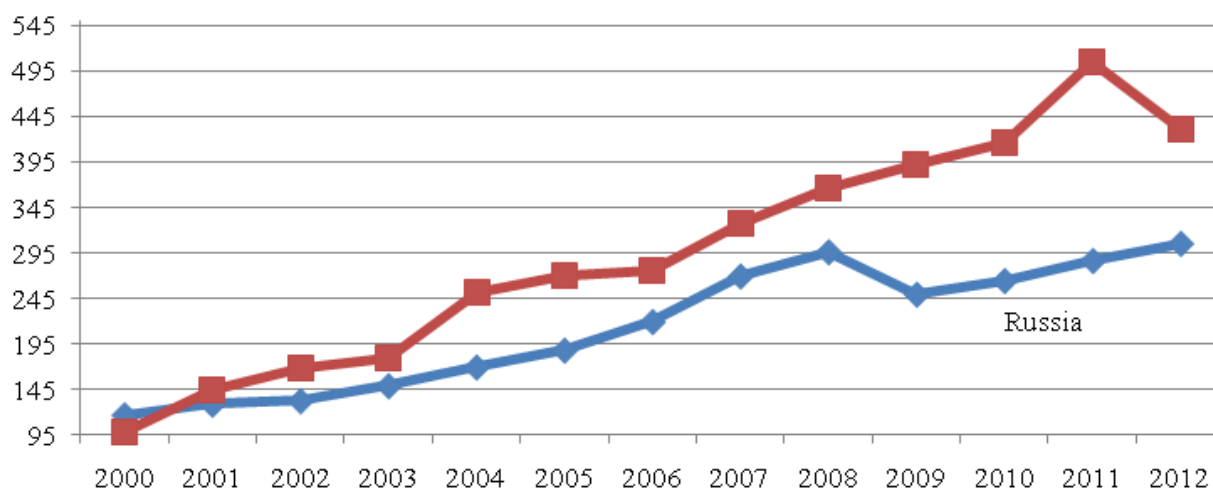


Figure 7. Fixed Capital Investments, Russian Far East, 2000 = 100%

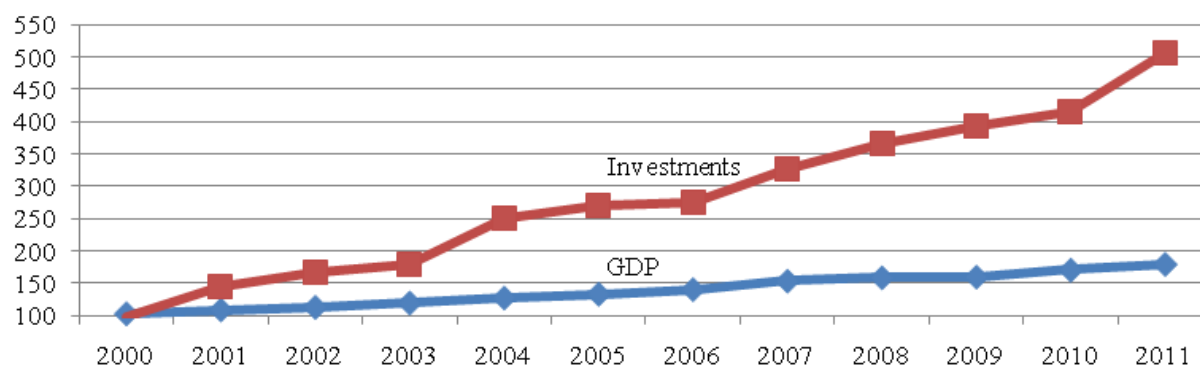


Figure 8. Foreign Trade and Investments dynamic, RFE, %

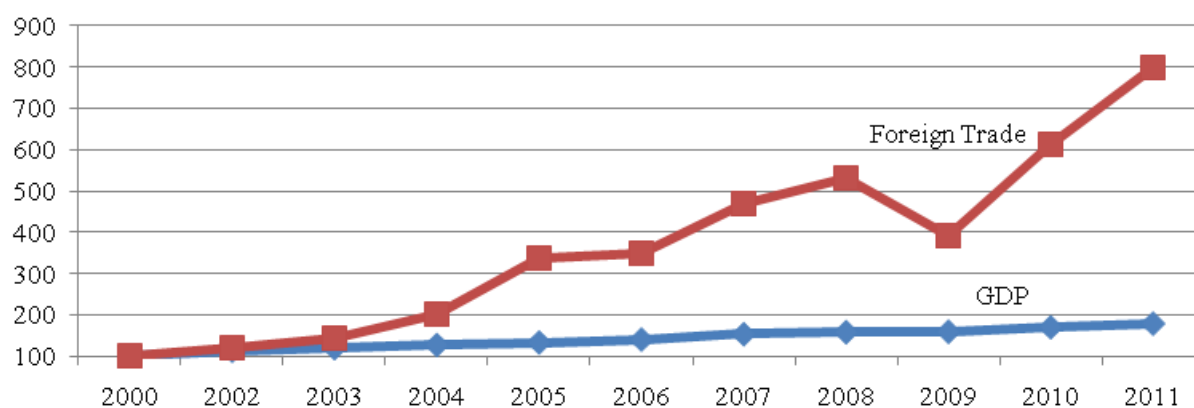


Figure 9. Foreign Trade and GDP Dynamic, %

The increasing of the regional trade as well as above mentioned effect' appearing dated by 2004 due to beginning of the Sakhalin project operation. And main part of the regional export consists from fuel goods (*figure 10*).

In case of Japan and ROK the share of oil and gas export is much higher (*figure 11*), but the regional export to China is more diverse (*figure 12*) reflecting more deep and mutual economic ties. In future the share of energy export to China can be increased due to confirmed recently projects of constructing new gas pipeline from Eastern Siberia and Yakut Republic. At the same time additional volume of machinery goods and engineering

services can be appeared after the beginning of the joint projects in field of aerospace industry.

By the way the trade dependence' increasing of the Russian Far East on the NEA which was a save for the regional economy and up to date and for midtime perspective remains the fundamental factor of market stability can transformed into a problem in long period because of creating a monopsonic trade model for the Russian Far East. While the intraregional trade of China, Japan and ROK during 2000–2012 was stable (17–18%) because of diversification of their geographical structures, the dependence of the RFE on trade with NEA was increasing from 56% to

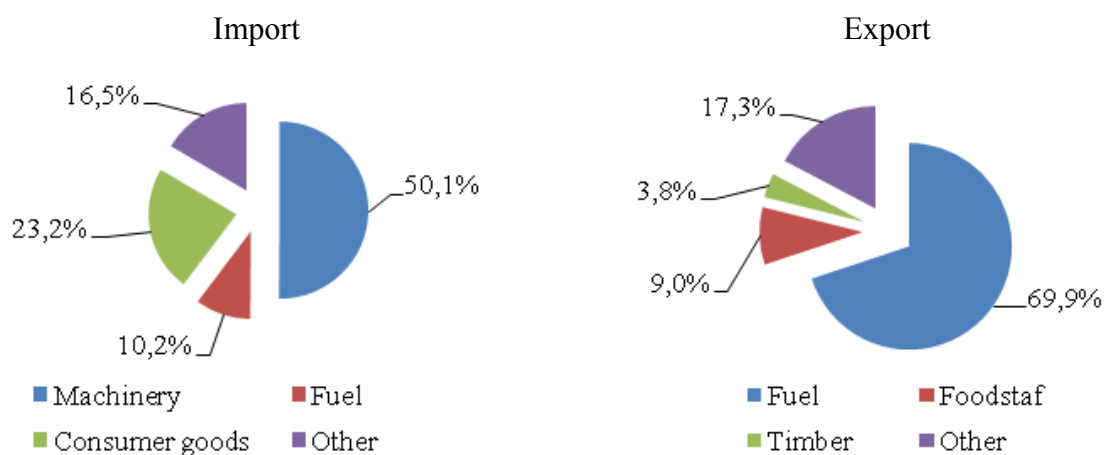


Figure 10. Russian Far East Foreign Trade, commodity structure, 2012, %

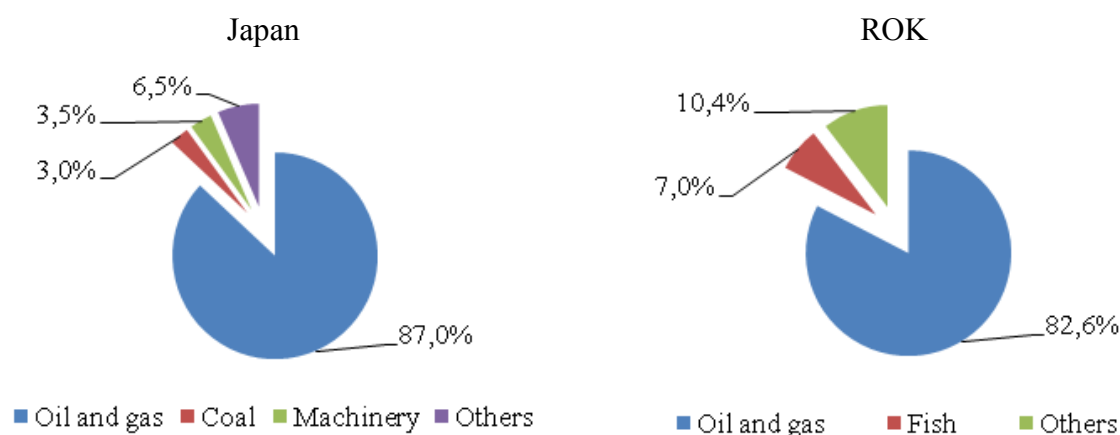


Figure 11. Commodity structure of the FE export to Japan & ROK, 2012, %

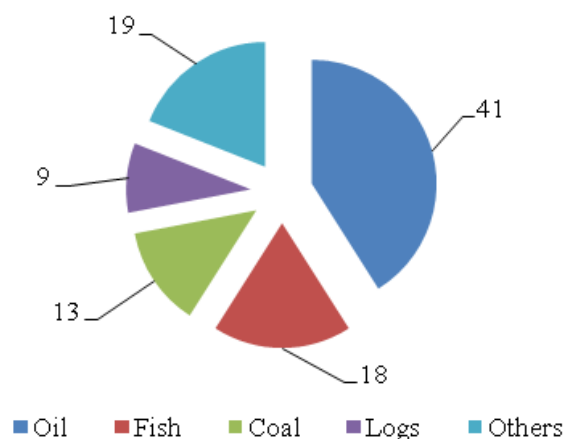


Figure 12. Commodity structure of the FE export to China, 2012, %

80% (*table 3*). It means that the regional economy stability bases only on market stability of the «NEA Big Triangle» and one of the important tasks for the region is to look for new trade partners.

For the Far East a dependence on foreign investments is much more important than for the Russian economy as a whole. For 2012–2013 average annual volume of fixed capital investment in the Far Eastern economy estimates as \$20–22 billions and the volume of total foreign investments reached \$9 billion in average. The volume of foreign direct investments in same period can be estimated as

\$2,5 billion. It means that share of total foreign investments for this period was more than 40% (10–12% for all Russia). In case of direct investments the share of foreign investments was around 10% against 2% for all Russia [4]. Foreign investments are playing critical role mainly for the export oriented regional sectors such as oil and gas, diamonds, timber, financial services (90% of all investments). By the way NEA countries are not sufficient investors to the Far East (exclusion is Japan). Main investors to the regional economy are Cyprus, Netherland, USA, and Great Britain.

Table 3

Intraregional Trade: NEA

	2000		2012	
	Total, \$ billion	With NEAC, %	Total, \$ billion	With NEAC, %
China	530,2	22,2	4 260,0	14,5
Japan	988,6	13,8	1 926,9	22,6
ROK	402,6	20,7	1 283,6	24,9
RFE	4,6	56,4	36,4	78,9

Can Russia Benefit from the NEA Cooperation' Acceleration?

There are three main directions for it. First, increasing of investment flows for the Far East and Eastern Siberia development as well as getting comparatively stable and dynamic market for natural resources extracting now and in future there. Second, receiving an alternative source of financial and technological resources. Third, obtaining additional scale market for national extracting sector and long budget incomes stabilization.

All three results can be reached only in case of radical changing of Russian economic model and political paradigm [2].

Modern economic model in Russia was created as a reaction on the 1998 financial

crisis followed by ruble devaluation, oil prices growth and import substitution development. Increasing of world oil prices which provoked the growth of real consumer consumption (250% as of 2000–2010) led to the growth of domestic consumer goods supply. But this effect was almost disappeared till next crisis (2009–2010). Though oil prices and export revenues remained enough high (*figure 13*), after 2008 their growth was very modest and could not be recovered [1; 4].

At the same time domestic inflation was going on (*figure 14*) and ruble became overvalued (*figure 15*).

Raising of production costs because of high inflation and decreasing of gross revenues due to overvaluing of ruble led to

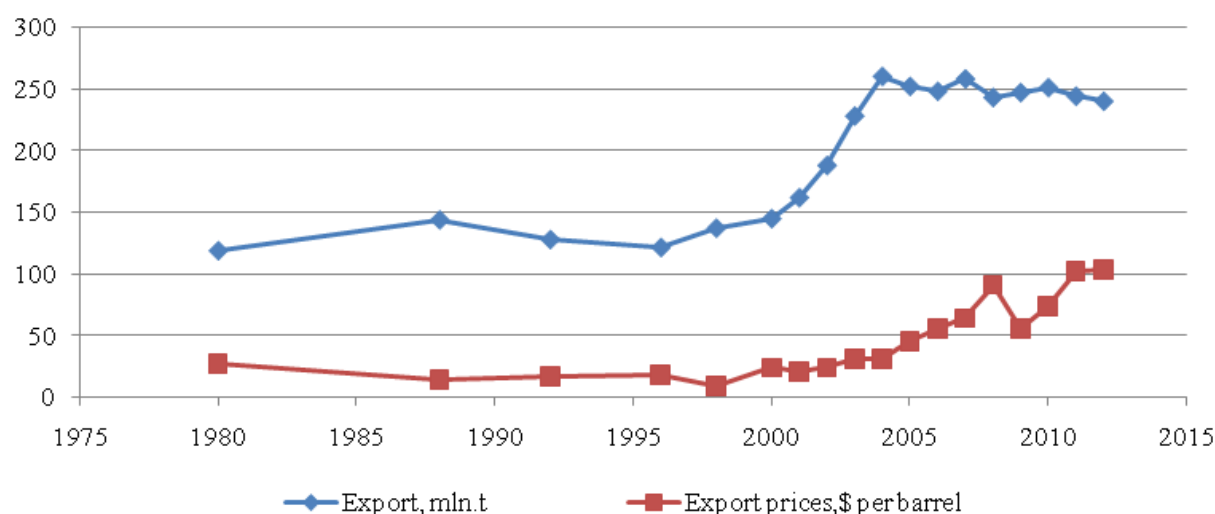


Figure 13. Russian oil export

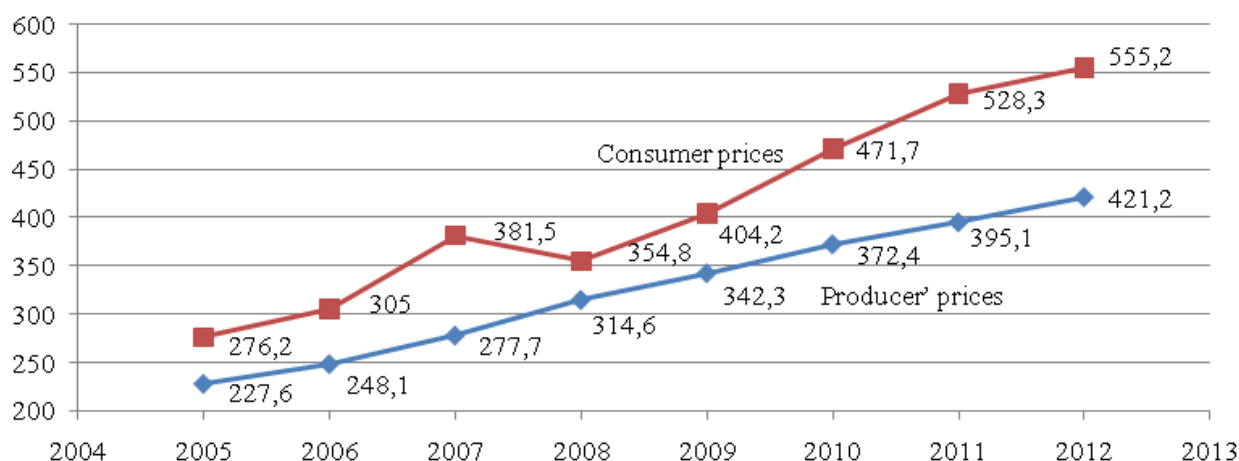


Figure 14. Retail and Wholesale Price Indexes

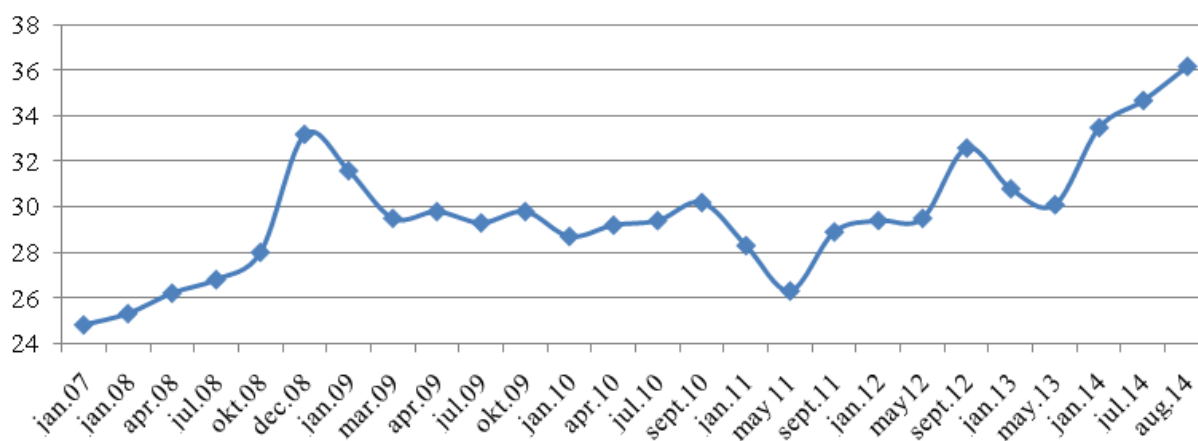


Figure 15. Exchange rate, ruble/US dollar

diminishing of a profitability in Russian industry including oil and gas [2].

Low level of new investment project profitability and fear of speculation in exchange market were reasons of comparatively high domestic interest rate and internal deficit on investment resources. Oil and gas revenues in form of federal budget reserve funds exported to US and EU. Than Russian corporations and banks have borrowed their money in form of long term loans and securities. As a result capital outflow began growing up.

The level of domestic demand supported by two factors: increasing of personal incomes and growing up of governmental

consumption including governmental investments. High growth rates of personal incomes in 2000–2007 change by almost stagnation in this sphere except pensions (GDP growth rates in 2009–2012 – 160%, pensions – 170%, salary – 139%). Governmental demand was connected mainly with military spending and investments to the «Exhibition Economy» – realization of enormous by scale projects (Olympics game, Universidad, APEC Summit, «Skolkovo», «New Moscow», «Goscorporations» and so on). Such projects are oriented to rising of national prestigious and strengthening of personal leadership but as a rule they are 'not followed by rising of do-

mestic demand, export possibilities, technological modernization, appearing of new types of businesses because of very poor national economic structure and level of qualification. As a result they cannot create the high level of incomes' augmentation now or in future. The most evident effect of such projects – creation of richness and prosperity illusions, first, and high level of corruption in economy.

Such economic policy can be named as «economy of squander». In USSR such economy was created to get «socialism win». In modern Russia scaled spending of public funds has goal to gratify of vainglory of the national governance.

Together with too tall political ambitious dimension of domestic demand' growth technological no competitiveness and poor institutions have stipulated since 2013 not only the economic stagnation but putted under doubt the possibility to use potential earnings from international cooperation as a whole including NEA cooperation. Of course it will be possible in case of the economic model, institutional construction and political imperatives' correction.

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