

ASIAN PART OF RUSSIA: TO SETTLE OR TO GIVE AWAY?

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Modern period of development of the Russian economy is characterized by the necessity to find an appropriate response to the EU sanctions against Russia so as to minimize the losses in the living standards of the Russian population. In the Institute of Economy and Industrial Engineering (Novosibirsk) an attempt is made to find a way to respond to economic sanctions by using interregional intersectoral model: the criterion is maximization of final consumption (FC). The result is not unexpected: within the initial ten year period the level of FC in the terms of growth rates will decrease by about 10-12%, though over the next ten year period it will be reversed and even probably surpass its previous figures particularly by maximizing home production and economic growth of Russia. Tellingly, in order to overcome the consequences of sanctions it would be desirable and probable to promote the accelerated growth of production in Siberia (Table 1).

Table 1

**The Resulting Indexes based on the moderate forecast of development and alternative version
“With EU sanctions” for the economies of Russia and Siberia (in trillion rubles)**

	Years	2015	2020	2025	2030	2035
Final Consumption of the Russian Federation (RF)	Without sanctions	38,1	43,5	53,6	84,3	101,5
	With sanctions	34,7	38,2	48,6	84,2	108,8
Gross output production (RF)	Without sanctions	81,8	102,5	131,3	150,5	174,7
	With sanctions	78,2	94,5	124,8	148,2	183,5
Gross output production (Siberian Federal District)	Without sanctions	11,3	15,3	19,9	25,1	34,7
	With sanctions	11,9	15,6	20,1	25,2	35,8

Note: Calculations implemented by B. Melentiev on the basis of results of decision on an optimization inter-branch interregional model.

Against this background it is useful to call to mind such statements as, for example, «Siberia² only by mistake fell to Russia’s share» repeated with enviable regularity. Some politicians, for instance, M. Albright, M. Thatcher supposed that there would be only 30–40 million people living in Russia and foreign researchers of Siberia made similar statements. Their recommendations on relocation of the most part of Siberia’s population into more warm regions of the country (or even in other countries) are «naturally» explained totally by the wish to bring advantages and benefits to people of the Russian Federation.

In Russian society an attitude toward Siberia was also ambiguous from the first-ever years of settlement of these new territories. For instance, governor general M.M. Speransky in the very beginning of his stay (1819) in Siberia asserted that «Siberia is simply Siberia,

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² In this article «Siberia» and «Asian part of Russia» are thought of as synonyms, if it is not specially specified, for example in a place where it is referred to Siberian Federal District.

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i.e. wonderful place for those who had been sent into exile, advantageous for some part of trade, advantageous and rich for mineralogy, but it is not a place for life and higher civil education, for development of property. Strong property based on arable farming, manufactures and domestic trade». However already in 1820 he has written: «If a bit I did here, at least consoled those who mourn, calmed indignations, stopped blatant violence and, maybe, even more important, I opened Siberia in its true political relations»¹.

Russian writers have not stayed half-hearted to Siberia as well. F. Dostoevsky, exiled to Siberia for penal servitude (in Omsk) in the first years of his presence here had an opinion that Siberia has no future, since all its rivers fall in the Arctic ocean and no other sea gates exist. Later, in 1881 in the «Diaries of a writer» he wrote completely opposite thing: «Russia is not only in Europe, but also in Asia... Moreover: in our coming destinies perhaps Asia will be our major outcome». Compare these words with the ideas of Anglo-Saxon geopolitists who are unfriendly to Russia (A.T. Mahan, H.J. Mackinder and others) about the global impact of this part of land surface (Lenaland) and the connected decision of Alexander III, Russian tsar, on building the Trans-Siberian Railway. Thus one can say that understanding of value of Siberia namely as a part of Russia comes step by step.

History repeats itself. Nowadays the issue of development of new attitude towards Siberia and to the North of Russia in general comes up again. Is it necessary to reclaim and populate Russian North, and if yes, then how. What advantages of Siberia are usually mentioned today as competitive ones? They say that Siberia is a storeroom of natural resources and a land bridge between East and West of the Eurasian continent. If to be on the side of Siberians, then one should agree, that life in a storeroom is cold and uncomfortable, and under a bridge – noisy and uneasy. Though the centuries-long experience of such towns and villages as Yeniseisk, Boguchany, Kezhmaand and many other located along the stream beds of great Siberian rivers, far to the north above the 50th parallel shows that it is possible not only to live in Siberia, but to raise healthy generations.

New territories development not so often realizes without direct or indirect impact of a state. One of the first large state strategic projects of Siberia's development was building of the Trans-Siberian Railway. It is telling that this project in present-day expressions was knowingly loss-making: nobody could say how many million tons of loads to be transported by this railway. Moreover, freights were extremely few in number since in Siberia there were no agriculture, coal mines and plants which could offer goods for transportation in European part of the country. Nevertheless Alexander III accepted a responsibility for making so important decision.

Certainly, there was an obvious military component: Japan established both fleet and ground troops for further occupation of the part of China (Manchuria) and, probably Russian Far East. Trans-Siberian Railway became the part of project of settling all Siberia – from the Urals to the Pacific Ocean, thus so effective, that only bread (grain) freights allowed make this Railway profitable. In other words, production came after a road. The predictions of our sincere friends came true: «On these boundless plains millions of Russian families will find life and activity» (F. Nansen wrote it after his journey over North Sea Rout (NSR), Yenisei river and Trans-Siberian Railway in 1913). It turned out that «life and activity» Russian families found not only on plains but also on foot-hills, and even in the mountains of Siberia and Far East, where enormous natural resource stocks have been found.

Direct participation of the state in developing new regions is foremost to create the infrastructure: objects of transport industry and energy production. It is also difficult to over-estimate the importance of state in realization of academic research of new territories. It is useful to remember that work on exploration of Siberia's resources has been started long before they were practically explored. Geographical, geodesic, and geological studies

¹ From the letters of M. Speransky to his daughter Elisabeth.

of enormous territories have been conducted, not always commercially reasonable. Accumulated academic stock now brings effective results. Unfortunately, this stock is used not always in the interests of the whole country. At all times the challenge of estimation of various projects involving «entering» new regions for their further development was particularly acute. The point is the absence or inaccuracy of information, sometimes its deliberate misrepresentation.

Presently the realization of big projects of new regions' development comes across a serious problem: government requires the ground of commercial efficiency of any large-scale project for decision-making of its implementation. As a rule, it is impossible. Many projects (especially infrastructural), in particular transport projects are evidently unprofitable. Why no impulse to see far prospects and no wish (skills?) to climb above the tasks of receiving money income as quick as possible. Here it is necessary to remember about the origin of concept «economy». The great Greek philosopher Aristotle is considered to be the author of this concept. Though people, as a rule, usually omit his pointing on the moment that one should distinguish «economy» from so-called «chrematistic», also science how to manage, only not to meet vital requirements of individuals (material and natural characteristics of requirements), but totally for the sake of getting money income, for the sake of accumulating richness. «Since chrematistic is located next to economy, people mistake it for economy; but it is a not economy. As chrematistic does not follow nature but focuses on exploitation. Usury works for chrematistic and people hate usury for clear reasons since it gets profit from money not from goods though money have been established to distribute goods. Money should facilitate trade, but usurious interest increases only money. Therefore this type of enrichment is most perverted» (Aristotle, «Politics»).

History knows many examples, when setting not money goal helped overcome crisis moments. Participation of the state as an organizing and financing promoter often allowed cope with difficulties in the shortest time. For example, the way out of the Great Depression in the USA (1930), plan of Th. Roosevelt on road building (transport infrastructure) and policy of De Gaulle on the revival of France after World War II. Though it would most like if emphasize the recovery program of Germany after World War II, so-called Marshall Plan. A goal «to provide the deserving standard of living to all Germans in a short space of time» was set. However a market (and regulated at initial stage) was established to be means towards this end in contrast to present Russia, where market in practice became an aim. Market in fact provided the rapid increase of welfare, but only for very narrow group of so-called «new Russians». Probably, Aristotle's warnings were unknown in Russia.

Difficulties in using positive aspects of market mechanisms in the Russian economy resulted from both objective and subjective reasons. Academician V. Makarov gives simple and clear explanation why most our building and transport projects are stuck: it is unwillingness of officials (and, unfortunately, even of many businessmen) to change anything in their smooth-running life, bringing good profits without attracting innovations and attempts to put into effect any new, sometimes risky projects. This is all the more true as far as the Asian part of Russia is concerned. To objective difficulties, alas, one should put down the fact of natural restrictions to the efficiency of most projects, especially in the development of processing productions in the east part of country.

Three basic components can be determined that can nowadays provide profitability of many Russian (especially Siberian) corporations:

1. Increased exploitation of Russian population by reducing its standard of living («eating away» of the present).
2. Subzero ecological requirements and appropriation of natural rent («eating away» of the future).
3. Lack of amortization of the before created capital assets («eating away» of the past).

Strict comment has been stated by S. Kara-Murza, scientist and political writer: «We are eating away the last of stock accumulated by a previous generation. We eat the body of murdered soviet system. It is enormous, but it is non-renewable resource. And it comes to an end».

Next question is also important: if profit is decided to be invested in the production development (although it is not obvious fact, taking into account a private character of many corporations), then where, in what region and what country to do it in reasonable way (naturally, from the point of view of maximization of corporation's profitability and the growth of its capitalization)? An answer is as well obvious: other things being equal where environment is warmer, all investment costs are lower and where markets of consumption of these goods are closer i.e. to China, Indonesia, Africa, Latin America and such. All of this is in the framework of operation of market economy laws: «nothing against you personally, only business!»

It is hard to argue with those, who are for full developing of territorial division of labor, who are for the rational distribution of production from the point of view of receiving maximum effect from profitable international trade. However organization of the mutually advantageous trade with other countries and integration in a world market make sense only in case when it is mutually beneficial. But it carries certain threats, first of all the loss of technological safety. Then it is again useful to remember the economists of dead and gone years.

German scientist Frederic List (1789–1846) contrary to A. Smith and D. Ricardo stated that it is far not always necessary to aim for taking advantage of relative efficiency between national economies. Thus, for example, according to him, Germany must develop those branches of industry, which have no competitive edges as compared to English branches. Germany has to do it for the achievement of national goals. This loss of costs, in his point of view, one should treat only as a price for «industrial education of nation». However hundred years before him similar ideas about absolute priority of home market appeared on Russian soil. Our compatriot I. Pososhkov in his «Book on Scarcity and Richness» intended to Russian tsar Peter I suggested to stop completely an import of commodities that can be produced in a country, though at first stage not of perfect quality. In his opinion, Russia needed an active protectionism policy to increase home industry. It would lay the bases for future Russian export of released product (in current terms «with bigger added value»). Notice that it had been said about three hundred years ago. Other our compatriot D. Mendeleev who are closer to us in time when made a presentation on Industrial Congress in Moscow in 1882 (i.e. before the decree on starting the building of Trans-Siberian Railway) urgently suggested to keep in mind a need to continue creation of convenient ways to the East, as he saw ahead the rapid growth of demand for manufactured goods in this region of the world. At that, he stressed: «Without a primary protection, it is certainly impossible to expect even that on internal markets the national plants could compete with existing western plants» (Mendeleev..., p. 141). Today we reopen these historical truths.

In 1930s the USSR had no choice but to be oriented towards the domestic market, to the development of its own diversified production and provision of the country with practically all needed goods, especially in relation to energy, metallurgy, engineering and defense industries. There was understanding of necessity to locate productions in various regions of country, which should be difficult to access in case of external threats. All these statements have been realized when fulfilling the plans of GOELRO (first Soviet plan for national economic recovery and development), Uralo-Kuznetsky integrated plant, group of territorial-production complexes (TPC) of the Angaro-Yenisey region and, finally, creation of the theory of TPC as a form which is especially useful in the regions of the new settling, for example Siberia. Many of these projects have been realized, even not in full size,

but still functioning. It is useful to compare what was accomplished in the framework of the processing industries creation within last 20 year period of the Soviet Union and 20 years of the new Russian economy (Table 2).

Even this short list of objects constructed within 1990–2009 period shows that they practically implemented a policy of «electric power export in the form of aluminum», 80% of it is meant for export. Some revival in the last five years of namely the «second floors» (for example, Boguchany forest processing complex and aluminous plant) does no foundation for strong optimism on the development of processing industries in Siberia. The objects located in Far East have also vector towards exporting of their products (mostly semi finished articles) to China and other countries of Asian Pacific Region. It is difficult to argue those, who consider Siberia to be in transformation into a raw material colony. However it is now reasonable to ask: whose colony? What country?

Table 2

**Several most big objects of the «second floors» (second generations)
of resource processing located in Siberia**

Period: 1970–1989	Period: 1990–2009
Krasnoyarsk Metallurgical Plant	Kharanorsk GRES
Achinsk Aluminous Combine	Khakask Aluminous Combine
Krasnoyarsk Hydroelectric Power Station (HPS)	Boguchany HPS (started building in 1974)
Surgut GRES-1 (state district power station)	
Lesosibirsk Forest Processing Complex (FPC)	
Ust-Ilimsk FPC	
Tomsk Chemical Integrated Plant	
Ust-Ilimsk HPS	
Achinsk Oil Processing Complex	
Petroleum Runback in Surgut	
Nizhnevartovsk Gas Processing Plant	
Tobolsk Gas-Chemical Complex	
Sayano-Shushensk HPS	
Surgut GRES-2	
Sayan Aluminous Combine	

Many questions arise in respect to the turn of Gazprom to the East and to the «Force of Siberia» project. This project is not new. Several variants of the turnabout of Russian gas to the East, first of all Eastern Siberia gas have been examined ten years ago (this experience is described in a book «Problem regions of resource type: Asian part of Russia»). It was then already clear that it is impossible to sell gas without leaving its helium component on the territory of Russia. Moreover, as gas of East Siberia has a lot of valuable components (ethane, propane, and others) it would be good to build a number of processing productions along the transportation of this gas in order to increase the added value for Russia. If to trace further possible chain of the use of this gas, then there are options to create in Siberia and on Far East mineral fertilizers plants, which can improve yields (agriculture productivity) and, thereafter create here a lot of new high-yield workplaces. This is

the most effective way to solve demographic problems in this region. In addition, in several options (south variants) on the way of gas transporting it was assumed to install gas service to population centers of the Irkutsk area, Buryatia and Transbaikal region.

However it is well-known that Gazprom is a commercial company and its aim is to get maximum profit. Therefore we have another resulting effect: a maximum of net profit reached in a variant, when on the territory of Russia only plants for helium utilization, least needed (for strategic safety reasons), are built. No gas-chemical plants, much less mineral fertilizers plants and no gasification of population centers are envisaged. Mineral fertilizers, alas, give much more return on the land of Chinese farmers.

The very sad thing here is that company's interests (even state company, but first and utmost a joint stock company) coincide with the interests of neighbor country. Deep processing production is more profitable to locate in other country: all components are cheaper. Objective evidence says that Russia (including Siberia) may lose in a competition for these profitable objects. In case the focus on pure market criteria to be kept then state interest maybe unable to hold its ground against commercial interest.

One can permanently hear that in Russia is no investment as they hurry from Russia. Traditional explanation is a bad institutional environment, bureaucracy, corruption etc. All these reasons are in evidence in Russia, but there is also another more deep and, first of all, intrinsic reason: a priori less effective production resulted from natural, climatic and geographical factors. Decisions about redirection of profits received from Siberian resources' use are usually accepted by so-called «top-managers». Their personal interests are frequently far from the interests of both Russian and Siberian population. The real investment resources (including preliminary studies of fundamental and applied sciences) are concentrated mostly in large companies. The point is that «dolce vita» for these large companies is provided without the realization of new, often risky projects. Middle and small businesses can be prepared for such risks, but they have neither financial nor technological possibilities.

In conclusion it would be helpful once again to pay your attention on the basic concepts of this study.

1. Asian part of Russia as no unique resources for the world economy. That is, no one and only resources to be found in other regions of the world (rare exceptions are Norilsk region and Baikal Lake). No super profitable projects are to be expected in this region. All economic aspects are more expensive: energy, transport, building and, mainly, MAN.
2. In mining operations a small and even medium size business is not able to bear the strain in the form of additional expenses in energy, transport and social spheres.
3. Economy of Asian part of Russia can compete on the world market only on account of redistribution of added value to the advantage of a «customer» by means of reducing a share of a «producer».
4. There is nothing «personal» (national, patriotic, etc.) in business. A private company (particularly not resident one) is not able to agree to the decrease of its profitability for the sake of state developing and achieving national strategic aims.

BUT! The Asian part of Russia is first of all Russian territory and as a minimum it is essential to maintain OUR population. For this purpose we should at least maintain infrastructure and create new high-paid jobs.

Therefore:

1. For Asian Russia application of the large complex projects with the casting vote of state structures is preferable
2. Competition is a good thing. Bad thing is when the third party wins from it. So for neighbor regions it is favorable to seek and find mutual understanding when carrying out large resource projects.



3. For the resources development projects of Asian part of Russia we propose a conception of «advance initiatives», supplementing conception of the «territorial-production complexes». This conception is strongly reasonable for «going» into the north and arctic regions of Russia.

4. «Transparency» is needed when it comes to the estimation of expenses and incomes of every participant of large investment projects.

Throwing a bridge into 2015 and continuing the logic of expediency of projects developed a century ago one can state that in order to evaluate the projects on further development of Siberia and all North (plus water areas of the Arctic Ocean) market criteria are in applicable. The narrowing of economic space for the sake of achieving today market effects can become tomorrow big and even irretrievable losses for the whole country.

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