

An Evaluation of the Business Environment in Siberia From the Perspective of Global Marketing (Summary)

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Introduction¹

Since the collapse of the Soviet Union, Japan's leading multinational corporations have been actively exporting goods to the Russian market, but until now they have seen the European side of Russia, west of the Urals, as the main market. Is Siberia really completely lacking in attractiveness as a "market"?

In global marketing, an analysis of the environment that a company is planning to enter is necessary. If a decision is taken not to enter the market or the decision to enter is delayed, even if the market in question has considerable potential, this will constitute a major loss of opportunity. After entering the relevant market, it is necessary to increase the number of sales offices, during the market expansion stage. The question of where to establish sales offices is an important issue in a company's marketing channel strategy. Is Siberia really a suitable place in which to establish sales offices? This paper attempts to conduct a basic macroeconomic analysis in order to assess the business environment in Siberia from the perspective of an awareness of the aforementioned issues.

1. What is Siberia?

Until the introduction of the federal districts in 2000, Siberia was divided into two areas for the purposes of classification: Eastern Siberia and Western Siberia. With the introduction of federal districts, Tyumen Oblast (including Khanty-Mansi autonomous district and Yamalo-Nenets (Yamalia) autonomous district) was transferred to the Urals Federal District. According to Vyacheslav Seliverstov, Deputy Director of the Institute of Economics and Industrial Engineering at the Novosibirsk Academic Center of the Siberian Branch of the Russian Academy of Sciences, the name "Siberia" is generally used to refer to Western Siberia, including Tyumen Oblast, the Khanty-Mansi autonomous district and the Yamalo-Nenets autonomous district, and Eastern Siberia, including the Buryat Republic and Chita Oblast. Consequently, in this paper, we have included Tyumen Oblast in considerations of Siberia.

2. The Population of Siberia

The population of the Siberian Federal District peaked at 21.234 million in 1992, since when it has shown a

declining trend; as of 1st January 2005, the population was 19.794 million, a decrease of 6.8% on the 1992 level. In contrast, in Tyumen Oblast, which has abundant oil and natural gas resources, the population has risen by 5.4% from 3.137 million in 1993 to 3.308 million in 2005. Within the Siberian region, there has been a population exodus from the northern (Taymyria autonomous district and Evenkia autonomous district) and eastern (Chita Oblast and the Buryat Republic) areas that have no natural resources, into northern (Khanty-Mansi autonomous district, Yamalo-Nenets autonomous district and Tomsk Oblast) and southern (Altai Krai) areas with abundant natural resources.

Of the cities in Siberia, Novosibirsk and Omsk both have populations of around a million, while the next largest city is Krasnoyarsk, with a population of 910,000.

3. The Gross Regional Product of Siberia

The per capita GRP (Gross Regional Product) of the Siberian Federal District puts it in sixth place among Russia's seven federal districts. Moreover, the share of the Siberian Federal District's GRP in Russia as a whole is falling. In 2001, out of the entire Siberian Federal District, only the GRP of Krasnoyarsk Krai and Tomsk Oblast, where mining and manufacturing production account for a major share of the economy, exceeded the Russian average; all the other federal entities within the district had GRP levels lower than the national average. The GRP of Tyumen Oblast is 4.6 times the Russian average and about 15.6 times the level of the GRP in the Tuva Republic, which has the lowest level of GRP in Siberia.

Per capita in Siberia's key areas, namely Irkutsk Oblast and Kemerovo Oblast, was higher than the Russian average in 1995, but thereafter it declined, falling to below the national average in 2001. Kemerovo Oblast, which was a development hub in the south, and Irkutsk Oblast, which is the hub of Eastern Siberia, are in decline.

Between 2001 and 2003, Novosibirsk Oblast, Omsk Oblast and Tomsk Oblast experienced higher growth than the Russian average in the fields of industrial production, agricultural production, distribution and transport. The key constituent elements in this growth were machinery manufacturing, foodstuffs, construction and the telecommunications industry. The levers supporting a new type of economy that aims for the renaissance of processing

¹ Between 17th August and 1st September 2004, the author visited Irkutsk, Novosibirsk, Harbin and Shenyang to conduct research and gather data as part of the Sasakawa Peace Foundation's project on Russia and Asia. Institutions visited in Irkutsk included the administration of Irkutsk Oblast, the Irkutsk Science Center of the Siberian Branch of the Russian Academy of Sciences, and Irkutsk State Technical University; in addition, the following institutions in Novosibirsk were visited: Novosibirsk City Office, the Siberian Interregional Association "Siberian Accord", the Siberian Fair, Novosibirsk State Technical University, and the Institute of Economics and Industrial Engineering at the Novosibirsk Academic Center of the Siberian Branch of the Russian Academy of Sciences. This paper forms part of the outcomes of field studies conducted during that visit.

complexes through a new technological base is being created.

4. The Industry of Siberia

A variety of industries are developing in the Altai Republic, Altai Krai, Irkutsk Oblast, Novosibirsk Oblast and Tomsk Oblast, including not only the electric power, fuels and non-ferrous metals industries, but also machinery and metals processing, chemicals and petrochemicals, timber, timber processing and paper pulp, building materials and foodstuffs; accordingly, the industrial structure is becoming increasingly diverse. Compared with Far Eastern Russia, a more diverse range of industries is developing in Siberia.

However, the major industries in Siberia are still the energy industry, including oil, natural gas, coal and electricity, and the non-ferrous metals industry, such as aluminum; in other words, it is an industrial structure dependent on primary resources. The problem with Siberia's industrial structure is that the weighting of industries centered on the extraction of primary goods is increasing, while that of high-tech industrial sectors, such as the machinery and equipment industry, is diminishing. There are a number of reasons for this. Firstly, there is the possibility that the region has been afflicted by "Dutch disease". Secondly, there is the fact that it will not be possible for the region to participate in the international division of labor without a transformation in the industrial structure, unless the money accumulated in the extractive industries, focused primarily on natural resources, is diverted to investment. The fact that the oil and gas sector, which has only a small ripple effect on domestic production, is the key industry with regard to domestic production is because production increases in the oil and gas sector do not give rise to increased production and investment in other sectors, so the inclination towards resources does not create new employment opportunities.

5. The Income and Unemployment Rate of Siberia

In all the federal entities of the Siberian Federal District, per capita monetary income is lower than the Russian average. Only in Krasnoyarsk Krai and Tyumen Oblast was monetary income higher than the Russian average in 2002. The primary commodity supply bases in Northern Siberia (Khanty-Mansi autonomous district, Yamalo-Nenets autonomous district and Tomsk Oblast) are becoming more affluent, while manufacturing and processing industry in Southern Siberia (Kemerovo Oblast, Novosibirsk Oblast, Omsk Oblast and Altai Krai) is atrophying.

The per capita car ownership rate in Khanty-Mansi autonomous district, Tyumen Oblast, Yamalo-Nenets autonomous district, the Khakassia Republic and Novosibirsk Oblast is higher than the average. It is worth of note that Khanty-Mansi autonomous district and Yamalo-Nenets autonomous district are second and third respectively to Moscow in terms of per capita retail sales. Moreover, the strength of purchasing power in the Tyumen region, which is home to many of the leading export-oriented companies in the oil sector, is remarkable. In oil-producing areas such as Tyumen Oblast, income rises, but

there are no consumption centers locally, so a pronounced money glut phenomenon emerges.

Furthermore, with regard to the number of mobile phone subscribers per 10,000 population, two federal entities in Siberia appear in the top ten: Tomsk Oblast in eighth position and Novosibirsk Oblast at ninth. With regard to the number of internet users per 10,000 population, six of Siberia's federal entities appear in the top ten: Taymyria autonomous district in third position, Tomsk Oblast in fourth, Evenkia autonomous district in sixth, Novosibirsk Oblast in seventh, Yamalo-Nenets autonomous district in eighth and Tyumen Oblast in tenth.

Judging solely by the statistics for monetary income, there is no significant demand in Siberia. However, if we base our assessment on the number of car owners, the number of mobile phone subscribers and the internet diffusion rate, we can see that actual demand does in fact exist in Siberia.

6. Investment in Siberia and the Investment Environment

Investment in Russia as a whole demonstrated growth of 2.6% in 2002, but in Siberia it fell by 6.7%. The lack of investment in Siberia is due to the high risk involved in investing there. According to the *Expert* magazine, Khanty-Mansi autonomous district ranked as high as fifth in a survey of the investment potential of 89 regions, but it was placed 40th in terms of investment risk. There was a stark contrast between the high ranking of this autonomous district in terms of investment potential, which is judged on basis of the existence of natural resources and the degree of productivity, and the low rankings it received in the assessment of its investment risk: 79th in terms of the crime rate, 87th in terms of the environment and 61st in terms of laws. In the investment potential assessment, it also ranked close to the bottom in terms of infrastructure, coming in at 81st.

Krasnoyarsk Krai also did well, ranking seventh in terms of investment potential. However, it was 57th in terms of overall investment risk and was placed 77th in terms of political stability, 58th for crime rate and 81st for the environment. With regard to its investment potential, although Krasnoyarsk Krai ranked 13th in terms of consumption, 11th for production, 7th for finance and 14th for systems, it only came 75th in the assessment of the state of its infrastructure. This trend also applies to other regions in Siberia.

In the assessment of investment potential, if we focus on consumption, we can see that a number of Siberian federal entities received high rankings, with Khanty-Mansi autonomous district coming in at 15th, Irkutsk Oblast at 18th, Novosibirsk Oblast at 17th and Omsk Oblast at 20th. Siberia received high rankings with regard to such indicators of investment potential as consumption, production, finance and systems, but all its federal entities were placed near the bottom of the table with regard to the state of its infrastructure.

Conclusion

Russia, which has 13 cities with a population of at least a million, is a large-scale market in Europe and has

great attractions as a consumer market. Entry into the Russian market, which takes this as its target, is already increasing and is likely to expand further in the future. Siberia has received high rankings for its investment potential, with regard to such indicators as consumption, production, finance and systems, and it is a “market” in which there is expected to be further growth in such areas as capital investment in the oil sector. However, it ranks near the bottom of the table in terms of the state of its infrastructure and the investment environment is bad. There are high risks involved in full-scale entry into the Siberian market. However, it is undeniable that companies will be

deprived of market opportunities if they do not enter the market.

In this kind of situation, a strategy that makes use of competent local distributors is preferable, as it requires the input of few resources and entails little risk. If such a strategy were adopted, companies would be able to avoid missing out on market opportunities; local wholesale distributors would be the main actors involved in seeking out and securing as many retailers as possible to become sales outlets, concluding contracts with them and supplying them with goods.