

# *The Global Financial Crisis and the Economy of the Russian Far East*

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## Summary

The Russian economy immediately prior to the global financial crisis was of the form "exporting nation-debtor nation," greatly dependent on the inflow of capital to exports, such as energy resources, and to the private sector. The Russian economy has suffered a double whammy (a decrease in external demand and the withdrawal of foreign capital) via the global financial crisis.

The economy of the Russian Far East has also suffered a double whammy, yet this was a decrease in external demand and a decrease in domestic demand. For the manufacturing sector oriented toward the domestic consumer market, and the electricity generating industry and energy industry, however, the relative decrease in output was small. On the other hand, the production of commercial machinery manufacturing and of the construction materials industry greatly decreased. The result was that the volume of freight transportation also decreased. Additionally, the labor market has also worsened, and the increase in real wages has also stalled. Characteristic in the economy of the Russian Far East is that fixed capital investment has increased (a 20.8% increase in the first half of 2009). This is probably due to government investment and the implementation of National Priority Projects.

On the whole, a structural change has occurred in the economy of the Russian Far East, where the investment-goods-producing sector is decreasing and the consumption-goods-producing sector is increasing. The facts that the share of the service industry has fallen and that the share of investment in the area of consumption has fallen can be raised as positive changes. Import substitution has been occurring in food and other relatively basic goods.

In August 2008 the Far East and Zabaykalye regional development program was reviewed, and the amount of investment increased from 567 billion rubles to 700.5 billion rubles. On that occasion, the investment amount for the subprogram "The Development of Vladivostok as a Center for International Cooperation in the Asia-Pacific Region" doubled. More than 70% of the investment amount for the program is aimed at the development of transportation infrastructure and electricity infrastructure. In addition the construction and improvement of health, education, cultural and sports facilities is also to be carried out. The construction of a bridge across the Golden Horn, the construction of a bridge across the Eastern Bosphorus, the improvement of the international airport, and the construction of conference facilities which will

later become federal university facilities, etc., are to be carried out within the framework of the city development subprogram for Vladivostok.

Hit by the crisis, changes have taken place for part of the project. For example, in the "South Yakut Comprehensive Development" project—for which the funding was decided would come from the "Investment Fund" in 2008—the 2009 budgetary reduction and the supplementation of the 2010 budget were fixed in June 2009. Furthermore, in the city development subprogram for Vladivostok, while the budget total will not change, the construction of part of the facilities was pushed back.

Via the contraction of external demand accompanying the global financial crisis, exports in the fourth quarter of 2008 for the Far Eastern region were only 64.6% of those for the same period of the previous year. The decrease in exports has been continuing in 2009 too. The drop in the price of exports has also been affecting this. Concerning imports, the depreciation of the ruble, the decline in household incomes, and the contraction in domestic demand have been having an influence. In addition, the announcements of the rise in tariffs for imported secondhand cars and for raw timber exports have been having a profound influence on market trends.

Escape from the crisis in the economy of the Russian Far East depends on two factors. One is the prospect for the stability of good economic conditions in the Russian economy as a whole. The other is the speed of economic recovery in the countries of Northeast Asia. Among the countries of Northeast Asia, the one displaying the most rapid recovery is China. Russia and China have reached agreement on cooperating in the implementation of (multiple) projects in the eastern part of Russia and in the northeastern part of China.

Will Russia's intent to attract Chinese investment for the economic development of Russia's Far Eastern resources be realized? Will China's idea of "economically swallowing up" the eastern part of Russia, ultimately making the region a part of the Chinese market, be realized? Will Russia be able to utilize the Chinese market, and go out into the international market via the route of sales in China? The geopolitical and strategic balance of Northeast Asia depends on this, as also does how the Russian Far East and Zabaykalye will escape the crisis.

[Translated by ERINA]