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Business Climate Hindering Far East Investment

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St. PETERSBURG—The government's initiative to attract 25 billion rubles ($781 million) of investment to the Far East by 2025 will fail if the business climate for private investors does not improve, businessmen and state officials said Thursday at a session of the St. Petersburg International Economic Forum dedicated to the region.

Although the Far East, with its timber, mining and processing industry, is seen as a major region for supplying raw materials and goods for export, speakers at the session said the government's initiative to improve the state of decaying infrastructure and reverse population decline was deficient, and the region had been neglected for a long time.

Last year, the Far East Development Ministry was established, but the idea to create a $17 billion state-run Far East development corporation discussed within the government came to nothing.

A new initiative was introduced in April, when Prime Minister Dmitry Medvedev signed the Far East Development Program. Medvedev said then that a law on Far East development was likely to be prepared soon.

The government's plan involves getting the majority of the desired 25 billion rubles of investment by 2025 from private investors.

"A sign that the program works would be three contracts signed by the next year between a Far East company and a foreign company: one in Irkutsk region, one in Primorsk region and one in Khabarovsk region," said Artyom Volynets, head of En+ Group.

The main source of investment is expected to be countries that border the Far East: China, Japan and Korea. The government has already approved a range of benefits for private investors, such as profit tax holidays.

According to Far East Development Fund figures, up to 3 trillion rubles will be required to develop the region over the next 10 to 15 years.

But most of the efforts to develop the Far East are still blocked by the Economic Development Ministry and Regional Development Ministry, said Pavel Grachyov, head of the Far East and Baikal Region Development Foundation.

Hu Bing, President of the Russia-China Investment Fund, said China is ready to invest in agriculture, education and transportation in the Far East. More than $2 billion were invested by the fund into Russia last year, including one of the biggest projects in the Far East— $200 million into RFP Group, the second largest timber processing company in that region, Hu said.

Tadashi Maeda, a senior executive of Japan's Bank for International Cooperation, said that his country wanted to see the Far East as a part of a prosperous economic zone and that Japan was aiming to change its approach in cooperation with Russia from oil and gas to the innovative sphere.

The Russian Direct Investment Fund announced in April that a Russian-Japan Fund would be created soon and would invest into projects in the Far East, such as nuclear medicine.

Maeda said Japan was interested in long-term investment projects in the region, which can supply Japanese cutting-edge industries with necessary materials.

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