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How to Transform the Far East Into a Gold Mine

By Valery Zubov

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Russia's bureaucracy just took another step toward perfection. Now Crimea, the North Caucasus and the Far East federal districts will have their own presidential envoys, ministers and, in all likelihood, deputy prime ministers. The costs of these decisions are not yet evident, and that is no surprise. The latest program for developing the Far East calls for spending 3.6 trillion rubles ($105 billion) through 2025, or five times more than was invested in the region three years ago. But there is no indication that the project will ever get off the ground.

The Far East is strategically important for Russia. It provides an outlet to the Pacific Ocean that Russia has left practically unused. In 2013, Russia's Pacific Ocean ports handled only 1.2 percent of the cargo that moved through all Pacific Ocean ports of the world. The Far East comprises almost half of Russia's territory but accounts for just 3 percent of its manufacturing output. The government has long been trying to develop the Far East, but the exodus of the region's residents continues unabated, and its economic prospects remain murky.

The situation there can only improve if certain conditions are met.

The most important requirement is a serious analysis of the situation. Not one of the so-called strategies for the Far East that Moscow has adopted in the last decade contains an analysis of why the region is so underdeveloped, or why previous programs have failed to produce the desired results. Next, Russia's leaders must learn from the experience of others. Not a single government document cites the successes that other countries have experienced in developing remote territories with severe climates — for example, Alaska in the U.S. or the Northern Territories in Canada.

Second, the authorities must make a clear distinction between budgetary funds and private investment when financing development programs. In the past, no such distinction was made. What is more, the government claimed that Rosneft putting down a new pipeline or Russian Railways rebuilding part of the BAM — or Baikal-Amur Mainline, the railway that transverses Eastern Siberia and the Far East — were examples of private investment. How is that possible, if both are state-owned companies? In the end it turned out that what passed for "attracting private investment" was just a ploy for complex schemes to secure more money from the federal budget.

Third, all of the development programs for the Far East and Baikal region are based on individual projects or geographic areas. The most recent government program designates 16 industrial facilities as priorities. The previous program focused on 12 separate development programs based on the number of geographic areas located within the region. But it is impossible to develop an entire region by focusing on this or that separate element. For a region to improve, the general investment climate must improve, and projects must be carried out that unite all of a region's physical and human resources.

The main task the federal government faces now is not to develop the Far East but to let the Far East develop. There is no need to create a separate area of advanced development within the Far East. What is needed are laws that permit certain things there that are restricted elsewhere in Russia. For example, foreign companies should be permitted to develop any local raw materials deposits because that would stimulate local economies. Also, investors should be permitted to own any independent piece of infrastructure they build. A good example is Alaska, which has 3,500 airports, most of which are 100 percent privately owned. The authorities should remove the current restrictions in the Far East so that residents can build homes or apartments on any parcel of land, included forest reserves.

In every other country with remote and harsh regions, the authorities created attractive, preferential conditions for investors, and the results are obvious: Income levels in Alaska are the third-highest among all 50 U.S. states and 11 times higher than in Russia's Far East. In 1989, Anchorage and Magadan had the same number of residents. Now, Magadan has three times fewer residents than Anchorage, and this is all because Russian authorities do not allow the Far East to develop.

The federal government should be the main funder of federal and regional projects, but it should operate in cooperation with the authorities in several regions and private business. The emphasis should be placed on developing local economies by attracting investors, including foreign investors, and by freeing up private initiative as much as possible. That is

how both Russian Siberia and the American West got their start.

Another problem is that federal authorities consistently underestimate the economic and strategic potential of the Far East. Every development program for the region inevitably includes a section on "cross-border economic cooperation," although the main mission should not be to increase trade with China but to gradually turn the Russian Far East into a Pacific — not Asian — economy in its own right. We are convinced that the region should seek investors not only from China, but also from Japan, Canada and the U.S. The authorities should put more emphasis on developing the coastal areas in the Far East instead of developing inland territories and railways. Russia should be divided into two different economic parts: the central part that gravitates to the Atlantic, the Urals and western Siberia, and the second part oriented toward the Pacific Ocean, eastern Siberia and the coastal regions.

If Moscow wants the Far East to develop, then it should let the Far East develop. The region has enough people, with a population density 2.3 times higher than in Alaska, along with enormous wealth in natural resources. Unfortunately, it is not the great distances, environmental factors or depopulation that has caused the Far East to lag behind not only its neighbors, but also the rest of Russia.

Moscow's policies are at fault. And the only way to solve the problem is with new, innovative thinking.

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