

Leontjevs, Jevgenijs; Dovladbekova, Inna

Conference Paper

Far Eastern federal district: Economic analysis and development problems

54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Leontjevs, Jevgenijs; Dovladbekova, Inna (2014) : Far Eastern federal district: Economic analysis and development problems, 54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/124446>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Far Eastern Federal District: Economic Analysis and Development Problems

Jevgenijs Leontjevs, Inna Dovladbekova *Riga Stradins University*

Abstract – The main aim of this paper is to define weak spots in the Far Eastern federal district's development in comparison with other federal districts in the Russian Federation based on a statistical and economic analysis, and develop general conclusions on possible improvement of the economic development of the region.

Keywords – regional development, regional development policy.

I. Introduction

Socioeconomic disparities between regions are an important issue in many countries. Both state legislation's and governmental institutions' goal is to reduce or eliminate imbalance between regions by implementing regional development plans, creating funds and policies in order to ensure security, stability and prosperity.

Regional economic growth and development encompasses multiple disciplines, including geography and planning, regional science, entrepreneurship, technology policy and economics. Malecki (1997) states that the concept of regional development consists of the qualitative or structural features of a region's economy not its sheer size or growth rate¹.

legledi (2011) claims that regional development policy is one of the most important policies and one of the most complex, as its status is derived from its goal of reducing the economic and social gaps existing between different regions and it influences different domains that are important for their development, such as economic growth and small and medium enterprises sector, transport, agriculture, urban development, environmental preservation, employment, professional training and education. Regional development has a new framework where economic activity diversification and boost, private sector

¹ Malecki J. Edward. Technology and Economic Development: The Dynamics of Local, Regional, and National Change. Ohio State University (OSU) - School of Public Policy and Management, 1997

investment climate improvement, unemployment reduction lead to improved living standards².

A political document: Federal Law Draft Project "On the basis of regional policy, the order of its development and implementation" defines regional development as "a mode of operation of a regional system, focused on positive dynamics of quality of life level and parameters, secured by sustainable and balanced reproduction of social, economic, resource and environmental potential of the region."³

The EC Directorate-General for Regional and Urban Policy states that the EU regional policy is an investment policy:

- it supports job creation, competitiveness, economic growth, improved quality of life and sustainable development;
- regional policy is also the expression of the EU's solidarity with less developed countries and regions, concentrating funds on the areas and sectors where they can make the most difference;
- regional policy aims to reduce the significant economic, social and territorial disparities that still exist between Europe's regions⁴.

According to the European Commission's Directorate-General for Regional and Urban Policy, regional development investment policy goal is to strengthen economic, social and territorial cohesion by reducing disparities between the levels of development of regions and countries of the European Union by helping:

- boost small and medium-sized businesses;
- support research and innovation;
- invest in a cleaner environment;
- improve access to digital technology;
- develop new products and production methods;
- support energy efficiency and tackle climate change;
- boost education and skills;
- improve transport links to remote regions¹.

² Iegledi Adriana Monica. Ways and Instruments of Accomplishing the Regional Policy – Romanian Sustainable Development Strategy 2000–2025. Petroleum-Gas University of Ploiesti BULLETIN Vol. LXIII No. 3/2011 96-104 Economic Sciences Series.

³ Проект федерального закона "Об основах государственной региональной политики, порядке ее разработки и реализации" [online] Available: http://vasilievaa.narod.ru/ru/norm_doc/fedzak/fz2.htm [accessed Feb. 18, 2014].

⁴ Directorate-General for Regional and Urban Policy [online] Available: http://ec.europa.eu/regional_policy/index_en.cfm [accessed Feb. 17, 2014].

The EC Directorate-General for Regional and Urban Policy highlights that the main regional development policy issues are:

- capitalisation on the strengths of each territory so they can best contribute to the sustainable and balanced development of the EU as a whole;
- concentration management by intensifying innovation and productivity at the same time as pollution and social exclusion;
- better connection of territories as people should be able to live wherever they want, with access to public services, efficient transport, reliable energy networks and broadband internet throughout the territory;
- need for new forms of cooperation between regions;
- foster Urban-Rural linkages⁵.

According to the OECD, regional development is a broad term but can be seen as a general effort to reduce regional disparities by supporting economic activities in regions.

OECD work on regional development recognises that a new approach to regional development is emerging; one that promises more effective use of public resources and significantly better policy outcomes. This involves a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the competitiveness of all regions.

Some key features of this new approach to regional development include:

- a strategic concept or development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms;
- a focus on endogenous assets, and less on exogenous investments and transfers;
- an emphasis on opportunity rather than on disadvantage;
- a collective/negotiated governance approach involving national, regional and local government plus other stakeholders, with the central government taking a less dominant role⁶.

II. Regional development of Far Eastern Federal District

Bearing different regional development terms put forward by scientists and international organisations it can be pointed out that regional development policy has evolved over the

⁵ Directorate-General for Regional and Urban Policy [online] Available: http://ec.europa.eu/regional_policy/index_en.cfm [accessed Feb. 17, 2014].

⁶ The Organisation for Economic Co-operation and Development (OECD) [online] Available: <http://www.oecd.org/regional/regional-policy/> [accessed Feb. 17, 2014].

last 50 years from simpler massive investment into infrastructure development to an understanding of region's unique features in order to uncover full potential of the region's competitive advantages by certain plans and policies. Understanding the region's socioeconomic, geographical and cultural features is key for elicitation of regional competitive advantages and development policy proposition. Moreover, policy effectiveness assessment backed by a detailed analysis is crucial for new regional development policy proposition.

As brought up by Noronha (2011), single sector-centric subsidies targeting the reduction of regional disparities must transform into multi-sector purposeful investment supporting regional opportunities, in order to enhance territorial competitiveness and cooperation of federal, national and local authorities with various stakeholders on a multi-level basis^{7,8}.

Regional development represents a substantial challenge for the economic progress of the Russian Federation. Some regions of the Russian Federation have an advantageous position in terms of future development conditions, like the Central Federal District (Moscow and St. Petersburg create a mono-centric economic development environment). However, there are other regions where certain development obstacles and growth challenges are identified on the macroeconomic scale. A detailed regional economic development comparative and quality analysis requires a clear understanding of the term "regional development" and a consideration of multiple macroeconomic criteria. It must be taken into account that despite significant investment projects, aid for growth and regional development some of the largest federal districts by area still fall behind other homeland regions in manufacturing, mining and quarrying, electricity, gas and water: the economic sectors that comprise a powerhouse of the national economy. The underdevelopment some of the largest federal districts of the Russian Federation, regional administrative management inefficiencies and failure to use development funds and programs to their full potential present severe development obstacles and socioeconomic threats in the future.

III. Regional characteristics of Far Eastern Federal District

The Far Eastern Federal District constitutes 36.08% of the Russian territory, 4.36% of Russia's total population with a population density of only 1.03 people per square

⁷ Galindo, P.V. and Noronha Vaz, T. (2009) "How effective are public policies for regional development? The PRIME in Portugal", in *Anales de Economia Aplicada*, Manso, J.R.P. and Monteiro, J.D. (Eds), pp. 295-318

⁸ Noronha, Teresa, 2011. "The Impacts of Public Policies for Regional Development in Portugal," *Spatial and Organizational Dynamics Discussion Papers 2011-3*, CIEO-Research Centre for Spatial and Organizational Dynamics, University of Algarve.

kilometre. The Far Eastern Federal District contains vast natural resource reserves including undiscovered natural resource reserves. The region's strategic location on the Pacific with emerging and existing Asian economic power sources bordering the federal district's south. Nevertheless, in spite of these significant competitive advantages, the Far Eastern Federal District remains one of the poorest and demographically lagging in Russia. A vast and rich territory of Far Eastern federal district can be characterised by a low level of socioeconomic development. The region produces less than 5% of Russian Federation's gross regional product, whereas the cost of living is about 40% higher than the national average⁹.

It must be pointed out that no regional development approach provides a solution for every given region. Theoretical approaches for regional development can be effective in eliminating regional inequalities if they are combined with a comparative analysis, bearing regional unique features and natural advantages in mind¹⁰.

As per Far Eastern federal district's opportunities and competitive advantages, it has the most favorable environment for creation and development of an entry point into the economy of the Pacific region. The main obstacle is inability to develop large-scale import-substituting manufacturing development projects and their effective integration into the East Asian region to compete in a vast and deep-saturated market, including undiscovered resource reserves and a poor social and technological infrastructure.

IV. Statistical and economic analysis

The population is an important part socioeconomic and development processes in the region. Population density, growth dynamics, population distribution among urban and rural, age structure and educational level play a key role in regional socioeconomic development. Therefore, it is crucial to look at least one of demographic factors, in scope of this paper it is population growth dynamics of Far Eastern federal district.

⁹ Russian Federal Statistics Service <http://www.gks.ru>

¹⁰ Robertson, T. (2002) Russia's Far East: economic development or economic dependence? GEOG 302 – Russian Geography

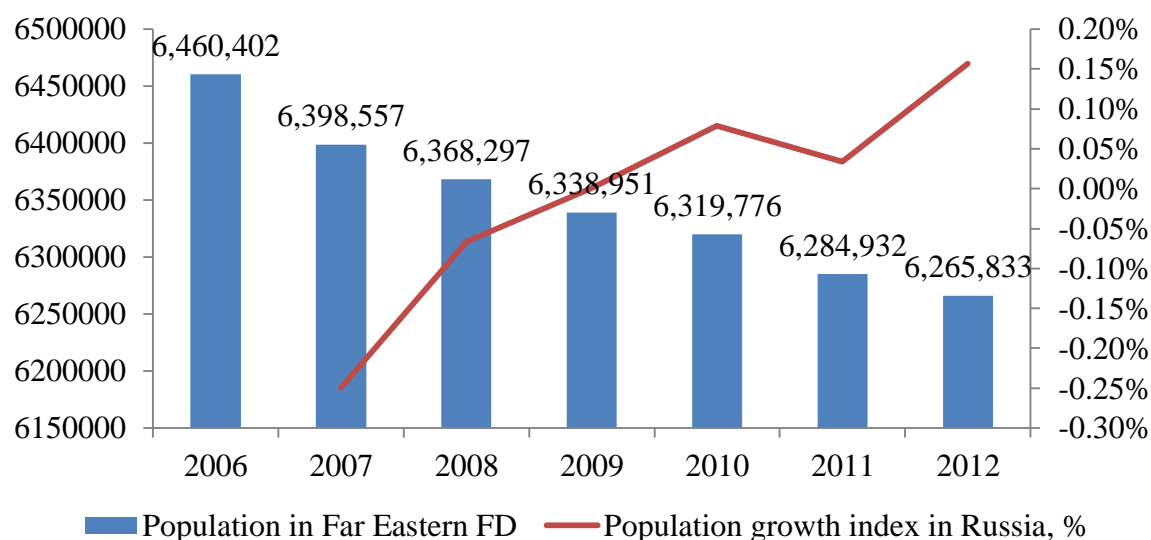


Fig. 1. Comparison of population growth in Far Eastern Federal District and population growth index in Russia¹¹

The demographic trend in Far Eastern federal district from 2006 to 2012 bears a downturn character (fig.1). Population in Far Eastern federal district decreased from 6.46 million in 2006 to 6.27 million in 2012. This results in a population loss of approximately 200,000 during six years. This negative tendency does not only create an obstacle in the federal district's socioeconomic development, but poses a national security threat to the Russian Federation.

The second important factor in regional development is various economic sectors business development and business climate. Successful business development is dependent on the number of economically active people living in the region, entrepreneurial legislature and equity investment or direct investment in the region.

Different sector enterprises located in a region have a critical influence on the socioeconomic development of a particular region. Businesses provide jobs, may attract investment and encourage immigration, vital for the region's economic development, particularly in case of the Far Eastern federal district. Businesses are also a source of income for the population and a source of income for the public and regional budgets as well¹². Moreover, businesses are support innovation performance in the region along with educational institutions. In order to assess the business development factor in the Far Eastern federal district, fixed capital investment growth trend is reviewed.

¹¹ Author made using Russian Federal Statistics Service <http://www.gks.ru>

¹² Ďurková, K., Čábyová, L., Vicienová, L. Regional development in economic core regions. Review of Applied Socio-Economic Research (Volume 4, Issue 2/ 2012), pp. 87

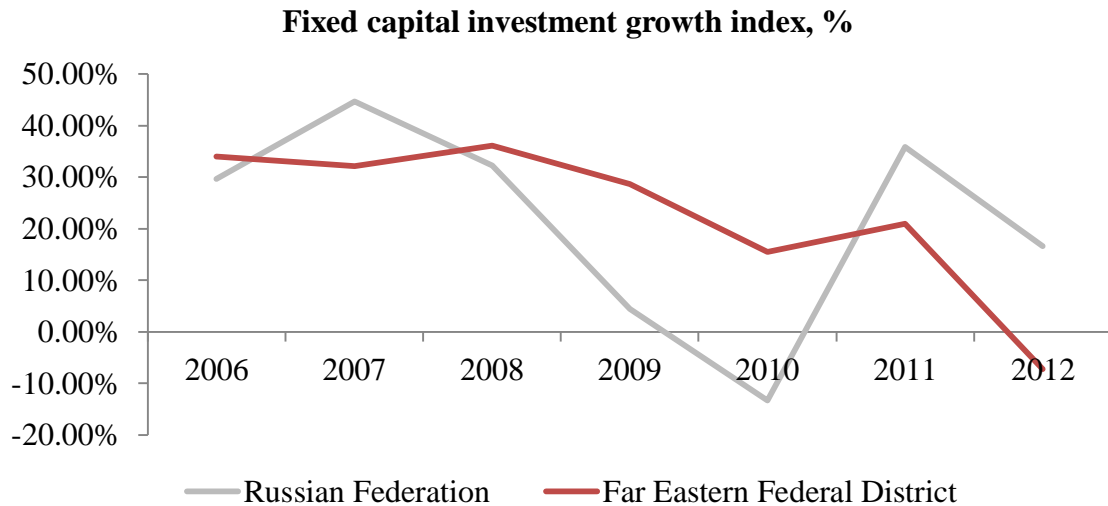


Fig. 2. Comparison of fixed capital investment growth in the Russian Federation and Far Eastern Federal District, 2006-2012, %¹³

Far Eastern federal district fixed capital investment growth index kept as high as 35% for the consecutive three years from 2006 to 2008; with 33.99% in 2006, 32.16% in 2007 and 36.08% in 2008 (fig.2). In comparison with the whole Russian fixed capital investment growth index, the Far Eastern Federal District fares quite well during the years of the aftermath of the 2008 financial crisis. In 2009, Far Eastern Federal District fixed capital investment growth index was 28.62%, while Russian Federation fixed capital investment growth index was 4.41%. In 2010, Far Eastern Federal District and Russian Federation fixed capital investment index was respectively 15.55% and -13.34%. In 2011 the Russian Federation fixed capital investment growth was 35.9%, while Far Eastern Federal District fixed capital investment growth was 20.92%. Fixed capital investment growth in the Russian Federation started lagging in 2012 and was only 16.63%. However, fixed capital investment in the Far Eastern Federal District stopped growing after 2011 and started to decline with -7.28% in 2012. Despite the fact that the Far Eastern Federal District was successful in fixed capital investment dynamics during 2006-2012 years, this figure is achieved due to large foreign investment in Sakhalin Oblast oil and gas projects that have a temporary nature and bear an insignificant influence on the growth of the manufacturing sector and its added value to the gross regional product.

¹³ Author made using Russian Federal Statistics Service <http://www.gks.ru>

In order to understand the region's fixed capital investment volume weight in the total fixed capital investment volume of the Russian Federation it is necessary to look into the fixed capital investment structure by federal district (fig.3).

Fixed capital investment by federal district, average 2005-2012, %

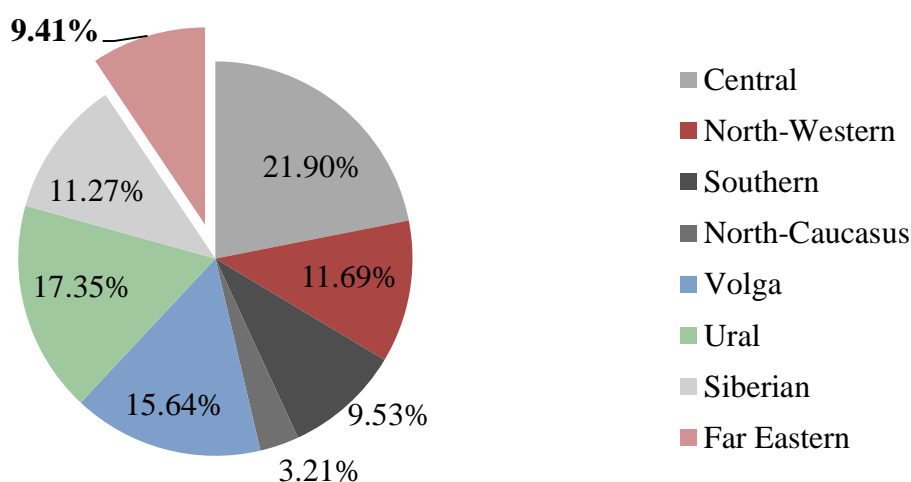


Fig. 3. Fixed capital investment by federal district in the Russian Federation¹⁴

The share of Far Eastern federal district average fixed capital investment in 2005-2012 comprises 9.41% of the total volume of fixed capital investment in the Russian Federation, second smallest share after North-Caucasus federal district. Central Federal District dominates the total fixed capital investment volume with a share of 21.9%. North-Western, Volga, Ural and Siberian federal districts have similar shares that are vary between 11% and 17%. The Southern federal district's share of fixed capital investment volume is 9.53%, while North-Caucasus federal district share is 3.21%.

As industrial production industries like mining and quarrying, power and manufacturing are one of the most important drivers of an economy of a country as large as the Russian Federation, a deeper insight into fixed capital investment structure in industrial production industries is vital for comprehension of the economic situation in the region.

¹⁴ Author made using Russian Federal Statistics Service <http://www.gks.ru>

**Fixed capital investments in mining and quarrying, production
and distribution of electricity, gas and water and manufacturing in
Far Eastern Federal District, bln. RUB**

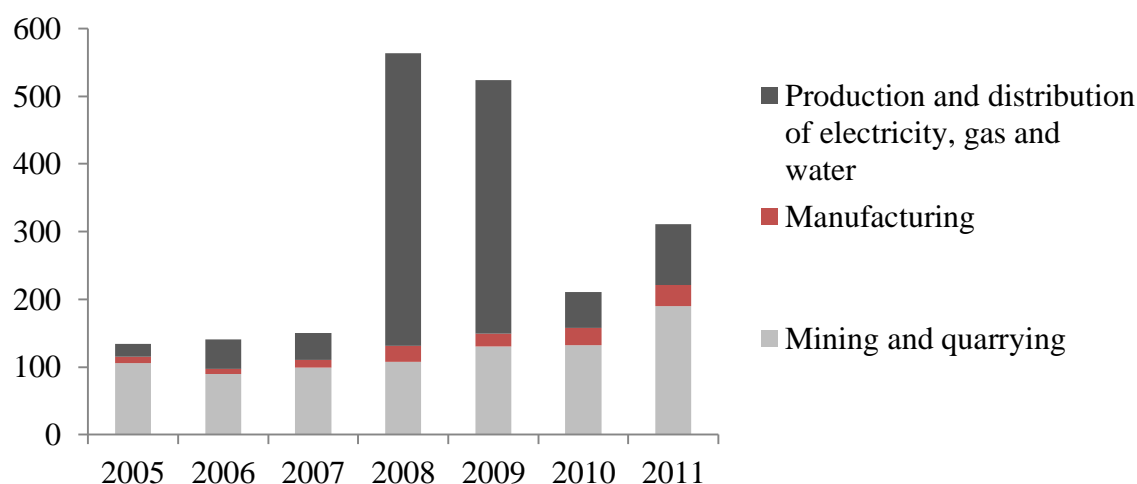


Fig. 4. Fixed capital investments in mining and quarrying, production and distribution of electricity, gas and water and manufacturing in Far Eastern Federal District, 2005-2011, billion RUB¹⁵

Far Eastern federal district fixed capital investment s in industrial production industries was stable with around 140 billion RUB in 2005-2007 (fig.4). Mining and quarrying as well as manufacturing industries show slow paced, but stable growth throughout the whole period between 2005 and 2011, from 19.1 to 31.1 billion RUB in manufacturing and from 105.7 to 189.9 billion RUB in mining and quarrying. Fixed capital investments in production and distribution of electricity, gas and water have shown growth from 19.1 billion RUB in 2005 to 43.1 billion RUB in 2006; and a slight decline in 2007, with 40.3 billion RUB. In 2008, however, fixed capital investments in production and distribution of electricity, gas and water have grown by 972% in comparison with 2007, and reached 432 billion RUB, comprising a share of 77% of the total amount of fixed capital investments in all three industrial production industries. The amount of fixed capital investments in production and distribution of electricity, gas and water in 2009 remained as high 375 billion RUB, by 57 billion RUB smaller in comparison with the 2008 investment amount. In 2010 and 2011 the fixed capital investments in production and distribution of electricity, gas and water were 52.8 and 90.3 billion RUB, respectively. The abnormal growth in fixed capital investments in production and distribution of electricity, gas and

¹⁵ Author made using Russian Federal Statistics Service <http://www.gks.ru>

water can be explained by liquefied natural gas plant construction projects. Moreover, similar liquefied natural gas plant construction projects are about to start in 2014 with approximate launch in 2018. Therefore, significant fixed capital investment growth in production and distribution of electricity, gas and water can be forecasted in 2014-2018¹⁶.

Perhaps an even more significant factor to regional economic development is foreign direct investment, especially in the Far Eastern federal district. Foreign direct investment is a free money flow to destinations that have the best prospects for effective economic growth and, respectively, high investment returns. Therefore, by looking at Russian foreign direct investment structure by federal district, most and least investment favourable regions for foreign investors can be identified.

Foreign direct investment by federal district, average 2005-2011, %

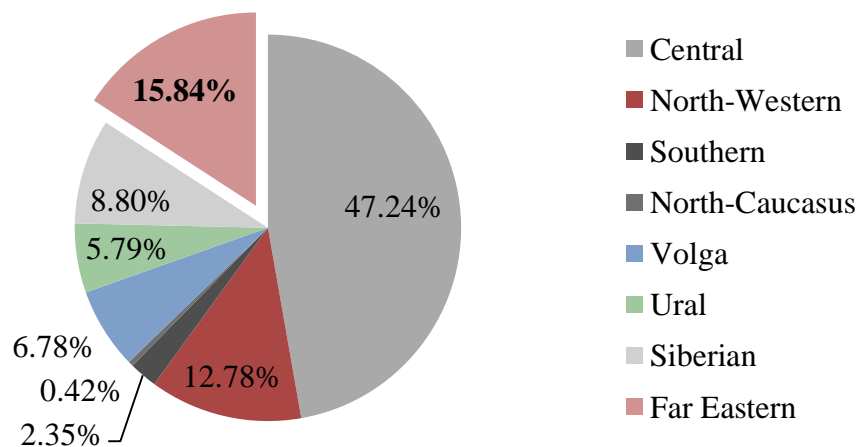


Fig. 5. Foreign direct investment by federal district, average 2005-2011, %¹⁷

Average Far Eastern federal district share of total foreign direct investment from 2005 to 2011 is 15.84% second only to Central federal district that comprises almost a half of total foreign direct investment in Russia with a share of 47.24% (fig.5). North-Western federal district's share of foreign direct investment is third largest with 12.78%. Similarly significant shares of foreign direct investment are in Siberian federal district – 8.8%, Volga federal district – 6.78% and Ural federal district with 5.79% of total foreign direct investment in Russia. Smallest shares of foreign direct investment are in Southern federal district – 2.35% and North-Caucasus federal district – 0.42%. In order to have an understanding of causal links of high foreign direct investment share in Far Eastern federal

¹⁶ LNG Congress Russia 2014 <http://www.lngrussiacongress.com/lng-projects/>

¹⁷ Author made using Russian Federal Statistics Service <http://www.gks.ru>

district, foreign direct investment structure has been analysed within the federal district itself.

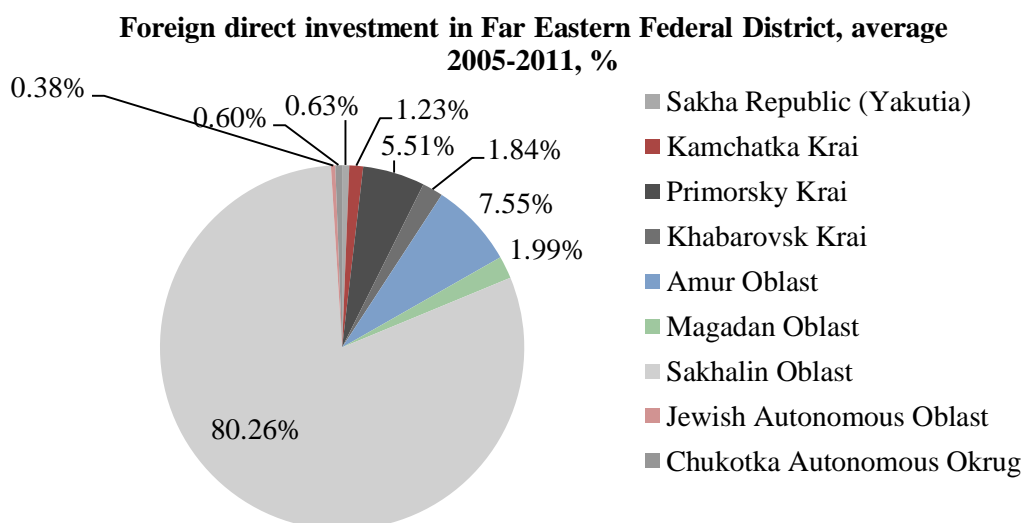


Fig. 6. Foreign direct investment in Far Eastern federal district, average 2005-2011, %¹⁸

Sakhalin Oblast dominates the structure taking over 80% of total region's foreign direct investment (fig.6). Amur Oblast has the second largest portion of Far Eastern federal district's foreign direct investment with 7.55%. Primorsky Krai comes in third in terms of foreign direct investment share in the Far Eastern federal district with 5.51%. Other federal district's territories' foreign direct investment shares are below 2%. FDI in Sakhalin Oblast is four times larger than Far Eastern federal district's other territories FDI altogether. Sakhalin Oblast dominance foreign direct investment is so great that if it was shown on fig.5 as a separate federal district, its FDI would comprise 12.71% – on the same level with the North-Western federal district. Whereas Far Eastern federal district's other territories' FDI share without Sakhalin Oblast would comprise merely 3.13%, slightly more than Southern federal district's share in total foreign direct investment.

By assessing the size of economic sectors in industrial productions industries: mining and quarrying, manufacturing and production of electricity, gas and water, it is possible to review economic activity in a particular region in comparison with the whole country.

¹⁸ Author made using Russian Federal Statistics Service <http://www.gks.ru>

Share of turnover in mining and quarrying industry by federal district, average 2005-2012, %

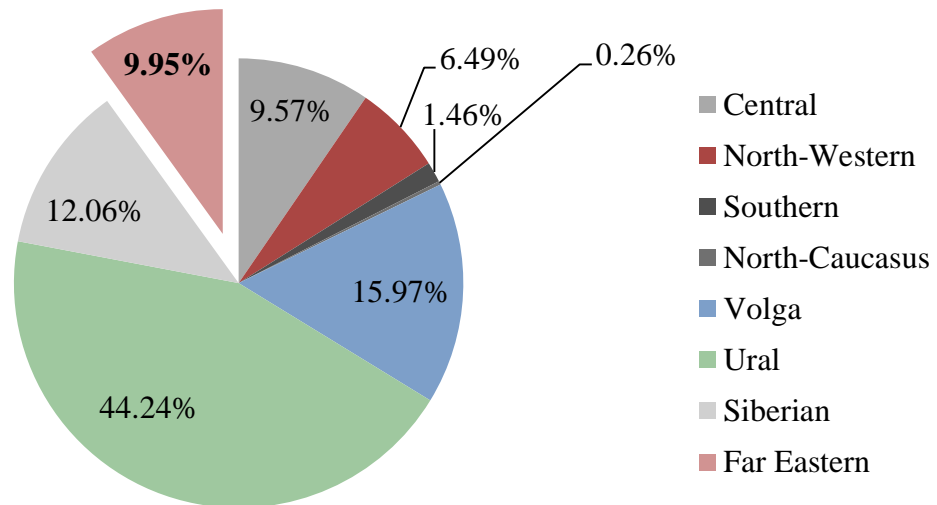


Fig. 7. Share of turnover in mining and quarrying by federal district, average 2005-2012, %¹⁹

Average Far Eastern federal district share of total turnover in mining and quarrying, including sales of goods, works and services from 2005 to 2012 is 9.95% and close in share size with Central federal district that has a share of 9.57% (fig.7). Three smallest shares of total turnover in mining and quarrying are in North-Western federal district – 6.49%, Southern federal district – 1.46% and North-Caucasus federal district – 0.26%. Similarly significant shares of total turnover in mining and quarrying are in Siberian federal district – 12.06%, Volga federal district – 15.97%. Ural federal district dominates the total turnover in mining and quarrying with a 44.24% large share. Dominance in turnover in mining and quarrying in Ural federal district is ensured by vast extractive industries and enterprises in the region.

¹⁹ Author made using Russian Federal Statistics Service <http://www.gks.ru>

**Share of turnover in manufacturing industry by federal district,
average 2005-2012, %**

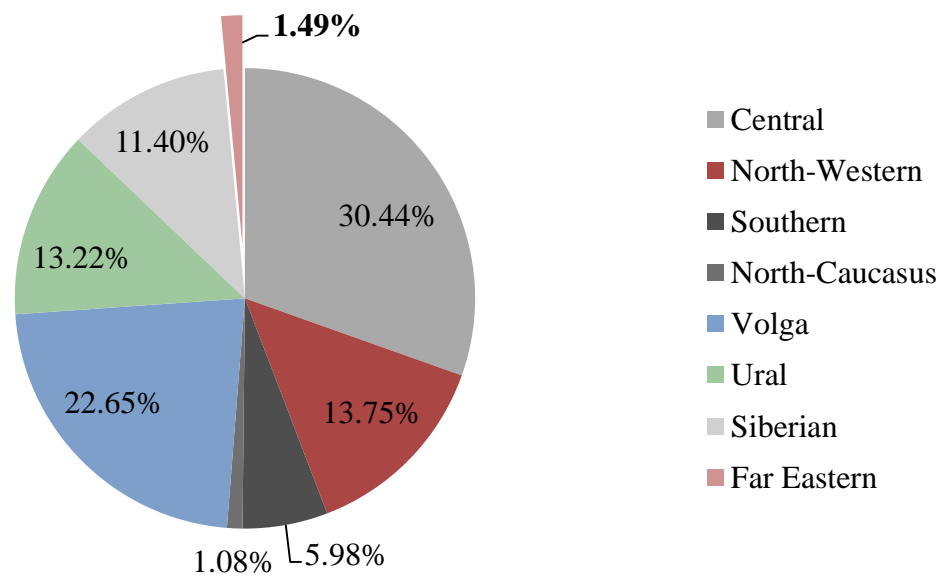


Fig. 8. Share of turnover in manufacturing by federal district, average 2005-2012, %²⁰

Average Far Eastern federal district share of total turnover in manufacturing, including sales of goods, works and services from 2005 to 2012 is only 1.49% and second only to North-Caucasus federal district with a 1.08% large share (fig.8). Three shares of total turnover in manufacturing of similar size are in North-Western federal district – 13.75%, Ural federal district – 13.22% and Siberian federal district – 11.4%. Second largest share of total turnover in manufacturing is in Volga federal district – 22.65%. The largest share of total turnover in manufacturing is in Central federal district with a 30.44% large share. A share of total turnover in manufacturing in Southern federal district is 5.98% and third smallest share among all federal districts.

Regional development embraces various factors and includes not only the region's equity investment, foreign direct investment and key industrial production industries' turnover, but the potential to export and trade effectively embracing its competitive advantages. Reviewing the region's trade (export and import) may help identifying problematic issues and is the first step in the assessment of the region's business productivity and entrepreneurial climate.

²⁰ Author made using Russian Federal Statistics Service <http://www.gks.ru>

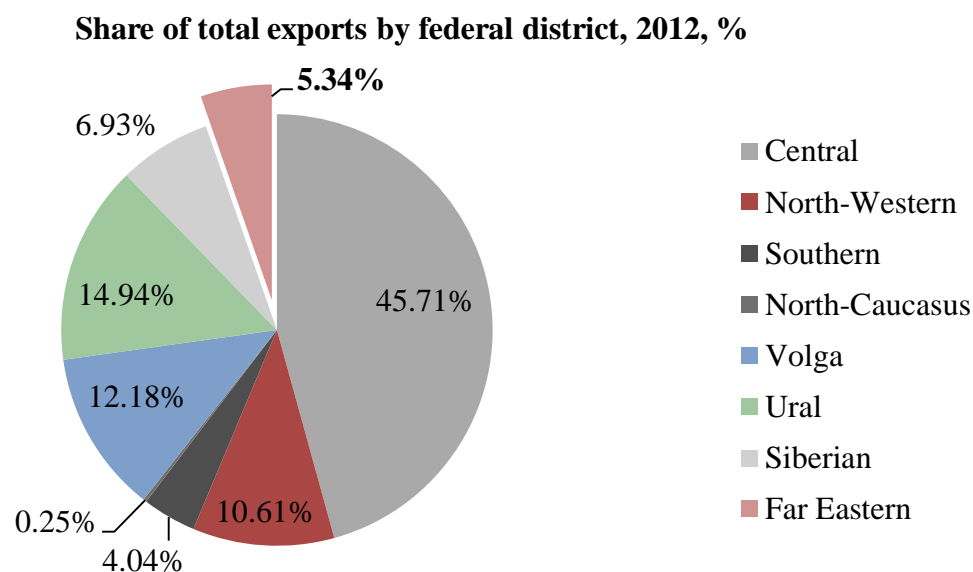


Fig. 9. Share of total exports by federal district, 2012, %²¹

Far Eastern federal district share of total Russian exports in 2012 is only 5.34% second only to North-Caucasus federal district with a 0.25% large share and Southern federal district with a 4.04% large share (fig.9). Total Russian exports are greatly dominated by Central federal district with 45.71%. Ural federal district share in total exports is the second largest and comprises 14.94% of the total exports volume. Three similar sized shares of total exports are in Volga federal district – 12.18%, North-Western federal district – 10.61% and Siberian federal district – 6.93%. The export structure doesn't show significant changes throughout the years from 2005 to 2012.

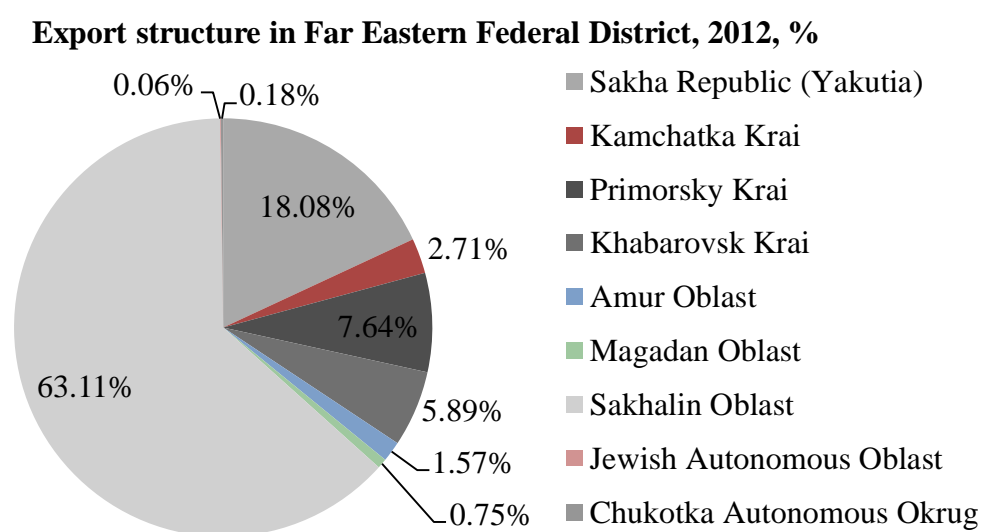


Fig. 10. Export structure in Far Eastern Federal District, 2012, %²²

²¹ Author made using Russian Federal Statistics Service <http://www.gks.ru>

By looking deeper into Far Eastern federal district territories' exports, regions that drive the economy of the federal district can be identified.

Severe imbalance is present in the region's export structure with a relatively small in terms of area and population Sakhalin Oblast taking over 63% of total region's exports (fig.10). Yakut Oblast has the second largest portion of total Far Eastern federal district's exports with 18.08%. Southernmost regions: Primorsky Krai and Khabarovsk Krai have 7.64% and 5.89% large shares in total federal district's exports. Primorsky Krai and Khabarovsk Krai are the territories, where the most enterprises in the region are concentrated. Kamchatka Krai share in the region's total exports is 2.71%. Other Far Eastern federal district's administrative territories Amur Oblast, Magadan Oblast, Jewish Autonomous Oblast and Chukotka Autonomous Okrug altogether comprise an insignificant share of the region's total exports – 2.56%. Sakhalin Oblast and Yakut Oblast dominance in Far Eastern federal district's exports can be described by a significant resource base in both territories and their concentration on mining and quarrying (Sakha Republic) and oil and gas (Sakhalin Oblast) industrial sectors and form the bulk of the federal district's exports as seen in fig. 11.

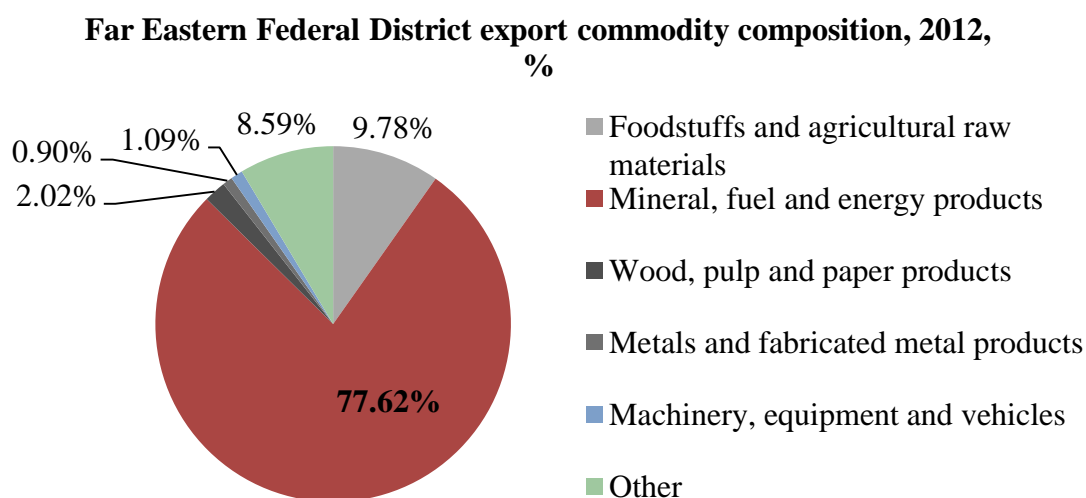


Fig. 11. Export commodity composition in Far Eastern Federal District, 2012, %²³

Upon review of Far Eastern federal district's export commodity composition it can be stated that export commodity structure is utterly concentrated on mineral, fuel and energy

²² Author made using Russian Federal Customs Service [online] Available: http://www.customs.ru/index.php?option=com_content&view=category&id=250&Itemid=2448 [accessed Feb. 20, 2014].

²³ Author made using Russian Federal Customs Service [online] Available: http://www.customs.ru/index.php?option=com_content&view=category&id=250&Itemid=2448 [accessed Feb. 20, 2014].

products that comprise over $\frac{3}{4}$ of the total region's exports in 2012 (fig.11). Other export commodity worth mention due to their share are foodstuffs and agricultural raw materials – 9.78%, wood, pulp and paper products – 2.02%, machinery, equipment and vehicles – 1.09%, metals and fabricated metal products – 0.9%. Other exports (less than 1% share in export commodity structure) comprise an 8.59% share. The imbalance is aggravated by disparities of economic activity in the federal district's regions. The export commodity composition doesn't show significant changes throughout the years from 2005 to 2012.

Far Eastern Federal District import commodity composition, 2012, %

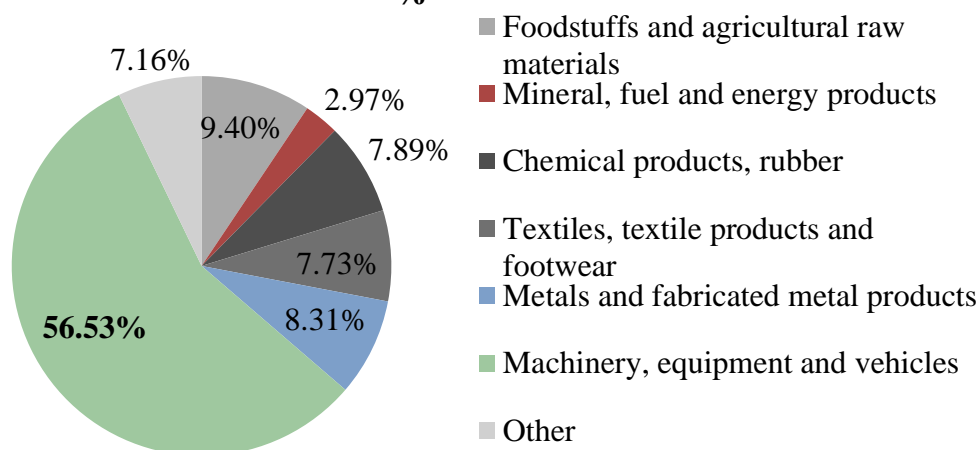


Fig 12. Import commodity composition in Far Eastern Federal District, 2012, %²⁴

Moreover, if we look at the import commodity composition in Far Eastern federal district the one-commodity-dominance pattern is seen here as well. Machinery, equipment and vehicles comprise over a half of the region's total imports with a 56.53% large share in 2012 (fig. 12). The other half of the federal district's total imports is composed of commodity group shares of similar size: foodstuffs and agricultural raw materials – 9.4%, metals and fabricated metal products – 8.31%, chemical products, rubber – 7.89%, textiles, textile products and footwear – 7.73%, mineral, fuel and energy products – 2.97% and other (less than 1% share in import commodity structure) with a share of 7.16%. The import commodity composition doesn't show significant changes throughout the years from 2005 to 2012.

Another important factor that influences regional development is state investment or government subsidies aimed to equalise economic disparities between the regions.

²⁴ Author made using Russian Federal Customs Service [online] Available: http://www.customs.ru/index.php?option=com_content&view=category&id=250&Itemid=2448 [accessed Feb. 20, 2014].

Economically stronger regions contribute certain amount of funds to the federal budget that go to the underdeveloped regions as financial aid and/or coverage of budget deficit.

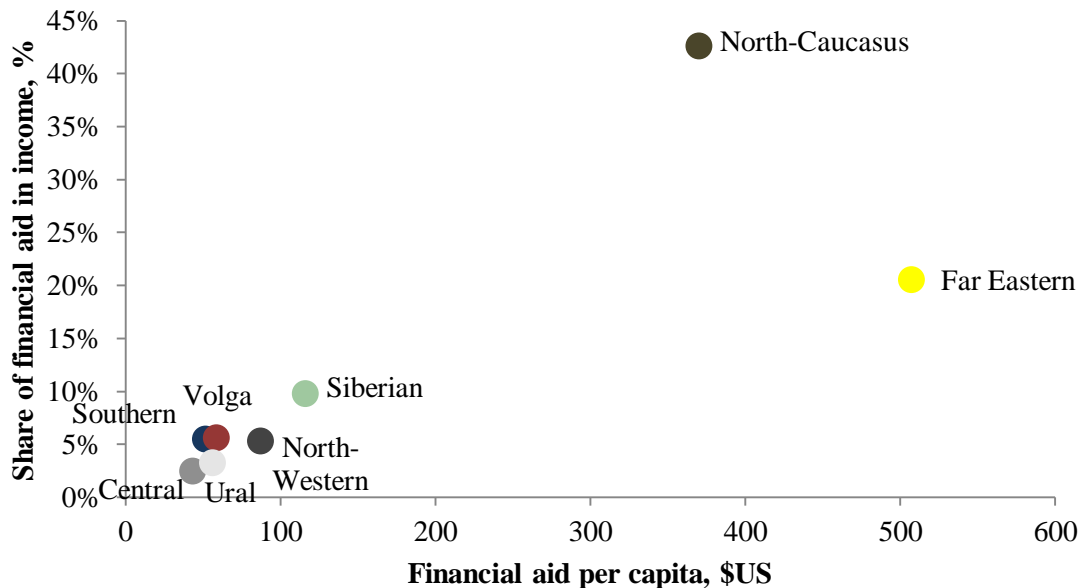


Fig. 13. Share of financial aid in federal district budgets' income, 2013, %²⁵

In order to assess the difference in regional subsidies the authors have chosen two factors: 1) Share of financial aid in federal district budgets' income; 2) Financial aid per capita in US dollars. The first factor shows the region's level of dependence on financial aid, while the second factor shows the federal subsidies in absolute numbers per region's inhabitant. As seen from fig.13, North-Caucasus federal district is the region with the highest share of financial aid in budget income, which is 42.64%. Far Eastern federal district comes in second with a 20.58% large share of financial aid in budget income. By looking solely at the first factor it might occur that the North-Caucasus federal district is most subsidised, but if looked at financial aid per person in the region, North-Caucasus federal district has the second highest financial aid – 370 USD per capita. The absolute leader in financial aid is the Far Eastern Federal District – 507 USD per capita. Other federal districts form a cluster with share of financial aid in budget income from 3.3% to 9.7% and financial aid from \$44 to \$116 per capita. The tendency remains the same through 2005-2013. The causal links for understanding high numbers of financial aid per capita in the Far Eastern federal district and relatively low output must be analysed by an assessment of effectiveness of federal subsidies and investment in development programs.

²⁵ Author made using Russian Federal Treasury [online] Available: <http://www.roskazna.ru/byudzheto-subektov-rf-i-mestnykh-byudzheto/> [accessed Feb. 20, 2014].

V. Conclusions

There are significant disparities in the development of manufacturing in Far Eastern federal district. Oil and gas sector dominates the industrial structure of the region. High real unit cost for deployment of manufacturing capacities makes production and/or processing of raw materials the most profitable industrial sector business. Far Eastern federal district is third last among all federal districts in volume of total fixed capital investments and second last in total turnover in manufacturing as well as in production and distribution of electricity, gas and water. Uneven allocation of human, technological and natural resources in the Far Eastern Federal District is one of the most important issues to face for the Russian government.

Far Eastern federal district unites various territorial entities with different levels of population, area, business development, investment climate, key industrial sector development and infrastructure. Poor infrastructure between economically more developed southern areas and northern regions result in deterioration of existing economic disparities between territories and does not help to uncover the region's competitive advantages to their full potential. Southern territories have relatively favourable conditions for the development of inner demographic potential, manufacturing enterprises and high value-added industries. Northern territories, however, lack the demographic potential of the south and have a less favourable climate for the development of industrial production, but have vast natural resource reserves, most of which are still undiscovered. This creates comprehensive development opportunities for the mining and quarrying sector.

In terms of the development of an economic powerhouse such as the manufacturing industry, transport and engineering infrastructure is vital. It includes areas for placement and operation of rail, road, river, sea, air, pipeline transport telecom and engineering equipment facilities and communications.

Far Eastern federal district should support the development of local enterprises and the small and medium business as a whole as they can form the bulk of the region's business. Moreover, the increase in the number of small and medium enterprises may potentially lead to the development of the financial and banking sector, growth of demand for loans and a more saturated financial market, beneficial for business development in the region.

The given analysis confirms the urgent need for the development, improvement and implementation of regional economic policies aimed at long-term development. Regional development policy should be an integral part of the national socioeconomic development

strategy. Therefore, it is required to anticipate every potential competitive advantage of the region.

Policy makers must assess the effectiveness of federal investments, financial aid, foreign investments and overall investment climate and identify major areas of improvement. Moreover, policy makers should work towards improvement of the existing regional strategy or develop a new regional development initiative that includes possible solutions for problematic issues. A new economic development initiative that provides funding for large scale manufacturing deployment projects that encourage economic growth and substitute imported machinery, equipment and vehicles in Far Eastern federal district must be developed and implemented. This strategy will allow diversifying all trade, both imports and exports, making the economy less vulnerable to recession and various economic downturns. Moreover, a roadmap for Far Eastern federal district development action plan should be created bearing regional features and similar countries' experience in mind. By developing such a roadmap, the region's competitive advantages can be identified and grasped to build and develop a strong import-substituting manufacturing upon. Certain project management and control authorities must be established to improve the environmental review process for proposed major resource development and infrastructure projects in Far Eastern federal district. These authorities must be reformed to a degree where they have a legitimate right to improve the timeliness, predictability and transparency of regulatory processes in the region to foster a more stable and attractive investment climate in the federal district. Both federal and regional authorities must focus on strengthening the key economic driver sectors in Far Eastern federal district; develop economic diversification and encourage people's participation in the economy.

This research does not cover all the factors that influence or have a certain effect on regional development. Nevertheless, the current research is a prerequisite for an extensive research including, but not limited to factors affecting regional development: natural resources, unemployment, labour market regulations, labour cost productivity, innovation capacity, quality of labour force, quality of educational institutions, political stability, regional government debt, tax burden, physical infrastructure, ICT, business financial performance and solvency, regional demand, purchasing power, earnings, poverty and inequality, inflation, health and sanitation, environment, quality of life, corruption and crime. Bearing the data and factors in mind, a regional competitiveness index can be created in order to perform a comparative analysis and clearly point out problematic issues as well as their possible resolutions.