

Russia's turn to the East: The Ministry for the Development of the Far East, and the domestic dimension

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Introduction

Russia's recently proclaimed turn toward Asia is fuelled by expectations of reaping benefits from integrating with the fast-growing markets of Northeast Asia. However, such a geo-economic reorientation requires a viable springboard in the Russian Far East. For all the talk about Asia–Pacific markets, a key component of the Asian pivot is Russia's own Far Eastern region, an underdeveloped, crisis-ridden backwater that currently constitutes a 'double periphery' – in relation to Moscow, and to the Asia–Pacific (Kuhrt 2012).

Vladimir Putin has declared the development of the Far East 'a national priority for the entire 21st century' (Kremlin.ru 2013). To facilitate its ambitious plans, Moscow has come up with an institutional innovation: the Ministry for the Development of the Far East (MDFE), which operates partly in Moscow as a regular part of the federal government, partly as a decentralized structure based in the Far Eastern Federal District. This hybrid solution reflects an attempt to strike a balance between Moscow's traditionally centralized approach to policy formulation, and the challenges of micromanaging policy implementation in a region that is distant in time and space.

- What is the role and the potential of the MDFE?
- How does this ministry interact with the other parts of the executive branch that also oversee Far Eastern policy portfolios?
- And to what extent does the MDFE address the current needs of the Russian Far East?

Backdrop: post-1991 centre–region relations

In the 1990s, relations between Moscow and the Russian Far East revolved around issues of regional autonomy, control over natural resources, and federal tax policy (Lee and Lukin 2016: 9). China was also a recurrent topic, with regional leaders in the Far East often less enthusiastic than Moscow about the benefits to be gained from developing relations with neighbouring Chinese provinces. Most federal subjects in the Russian Far East have

traditionally been net recipients of transfers over the federal budget. However, with the economy in free fall, Moscow had little to offer but promises. In 1996 the federal government adopted a targeted programme for the development of the Russian Far East, but stifled by the lack of genuine commitment and adequate resource allocation most plans never materialized.

New attempts to revive the Far East were undertaken through targeted programmes adopted in 2002 (focusing on exploitation of natural resources) and 2006 (living standards and social welfare). As state finances gradually improved, the problem of underfinancing became less acute. Especially with the adoption of the 2006 programme, the state began investing massively in the socioeconomic development of the Far East (Lee and Lukin 2016).

Another breakthrough came in 2009 when, in the midst of economic crisis, the central government adopted a revised long-term development agenda for the Russian Far East. This strategy highlighted the potential for regional economic development through integration with the Asia–Pacific, by supplying countries like China, Japan and South Korea with energy and natural resources.

Based on an understanding that only the state had the economic muscle necessary for implementing such a grand project, in early 2012 the idea of setting up a state corporation for the development of Eastern Siberia and the Russian Far East, encompassing some 60 per cent of Russia's territory, was floated. This corporation would be responsible for ensuring efficient exploitation of the region's natural resources, and be under direct presidential oversight. However, in the end the idea of a corporation was scrapped, to be replaced by the MDFE.

The Ministry

The MDFE was established in June 2012. For the first two years, it functioned in parallel to the Ministry of Regional Development

(the latter was abolished in 2014). The rationale for lifting the Far Eastern portfolio out of regular regional development policy was the belief in top-down implementation of development: that a separate bureaucratic structure would offer the most efficient way of addressing the socioeconomic challenges of the Far East. For additional clout, it was decided that the new minister should double in the position as Presidential Plenipotentiary to the Far Eastern Federal District.

The most innovative aspect of this new ministry was its partially decentralized structure, with the ministry physically established in Moscow and in Khabarovsk, and the minister dividing his time between the two branches. The regional presence was intended to make ministry better positioned to follow up implementation of state programmes in the field, as well as get a better grasp of regional challenges and potentials. And since Khabarovsk was the seat of the Presidential Plenipotentiary, the natural choice was to co-locate the ministry there.

The first Minister of Far Eastern Development was Viktor Ishaev, a local political heavy-weight who had served as governor of Khabarovsk from 1991 until 2009, when he was appointed Presidential Plenipotentiary to the Far Eastern Federal District. Now he would combine the two jobs: as minister of the federal government and the president's special representative to the Far East. The recruitment of a minister with more than twenty years of first-hand experience from the regional executive branch seemed to signal that Moscow was now ready to allow room for regional inputs.

Within a few months, however, Ishaev fell out of favour. In August 2013 he was replaced, both as minister and as presidential plenipotentiary, and the two positions were then split. The new minister was Aleksandr Galushka – a Muscovite with no experience from the Far East. The position of plenipotentiary went to Yurii Trutnev, a long-term (2004–12) Minister of Natural Resources.

In parallel, the ministry itself underwent structural reorganization, with an additional branch being established in Vladivostok. In the process, staffing at the Khabarovsk branch, Ishaev's old stronghold, was cut back from more than 200 to a mere 28, while the new branch in Vladivostok was assigned 129 (compared to Moscow's 120).

Today, the Khabarovsk and Vladivostok offices are officially equal in status to the Moscow one – although, with the shift from Ishaev to Galushka, the minister seems to be spending more time in Moscow. Within the ministry there is no clear branch specialization whereby a separate portfolio is located exclusively to Khabarovsk or Vladivostok: instead, there is regional representation to facilitate the flow of information and decisions between the capital and the federal subjects.

Portfolio

The MDFE is responsible for the implementation of state programmes and federal targeted programmes in the Far Eastern

Federal District, the management of federal property, and monitoring the work of the regional executive branch. Within the portfolio of the ministry are also the following agencies, all established in 2015:

- the Far East Human Capital Development Agency, with offices in Moscow, Khabarovsk and Vladivostok, and tasked with attracting labour force to the Russian Far East and facilitating positive migration dynamics;
- the Far East Investment and Export Agency, with an office in Moscow, responsible for marketing the region and working with potential national and international investors, including potential residents of the advanced special economic zones (ASEZs);
- the joint stock company Far East Development Corporation, with offices in Moscow and Vladivostok, handling the operation of the ASEZs and development of the Free Port of Vladivostok regime.

As compared to the lofty plans for a state corporation, this is altogether a rather watered-down portfolio. Not only has the territory falling under the purview of the ministry been nearly halved (when Eastern Siberia was excluded, the figure fell from some 60 per cent of Russia's territory to 36 per cent), the powers and prerogatives have also been cut back to something more resembling a regular ministry: the MDFE is more about oversight and facilitating development than being directly involved in running Far Eastern businesses.

Plans and implementation

What the new ministry initially did enjoy was impressive economic muscle. In March 2013, during Ishaev's stint as minister, the government adopted an ambitious new state programme for the period up until 2025 with a total budget more than 10 trillion rubles, of which the government itself was to contribute 3.8 trillion.

Economic realities soon kicked in, however. With the change in leadership in the ministry, plans were overhauled. In April 2014, when a revised version of the programme was approved, the state funding for the period up to 2020 had been reduced to 346 billion rubles – less than a tenth of what the government had pledged the previous year. Gone were the extravagant state-funded investment projects: the focus was now on attracting private investment – national and foreign – to accelerate the economic development. In the course of the next year, various new mechanisms were introduced to facilitate the influx of capital – both financial and human. Three key initiatives can be highlighted in this respect:

First, there is the establishment of advanced special economic zones (ASEZs). The ASEZs are based on deregulation and tax breaks as incentives for attracting private investment. These specialized zones are intended to serve as growth engines for the wider region.

Second, there is the Free Port of Vladivostok, encompassing 15 municipalities in the southern part of Primorskiï Krai. Like

the ASEZs, it involves tax and customs benefits and simplified regulations – in this case, also potentially a special simplified visa regime. However, the Free Port is far more ambitious in scale and complexity, with the regime encompassing 28,400 km² and 1.4 million people. The plans involve creating 85,000 new workplaces by 2021 and more than doubling the GRP of Primorski Krai by 2025. As with the ASEZs, the regime is operated by the Far East Development Corporation.

Third, there is the Far Eastern hectare initiative, introduced in 2016 to counteract the negative migration balance. The population of the Russian Far East has dropped steadily ever since the break-up of the Soviet Union. By offering one hectare of land for free to prospective settlers, the authorities hope to stem the tide. The mechanism is administered by the Far East Human Capital Development Agency and is open to all citizens of the Russian Federation.

The ministry hopes that this set of new mechanisms will contribute to giving the regional economy the boost it so desperately needs if the Far East is to function as a gateway to the Asia–Pacific. Due to sequestration and changing priorities, state spending earmarked for Far Eastern development has been slashed several times over the last few years. Hence, attracting private investment has become even more crucial.

Institutional competition within the executive vertical

The MDFE is responsible for coordinating state policies for economic and sociodemographic development of the Far Eastern Federal District. However, it operates in an institutional landscape that involves a series of other actors with partially overlapping portfolios – if not always fully overlapping interests.

Intra-ministerial competition and rivalries

Most immediately, the MDFE faces intra-ministerial competition. Until the Ministry of Regional Development was abolished in 2014, there was a tension between priorities in regional development as such and specific prioritization of the Russian Far East. In November 2012, President Putin, at a meeting of the State Council devoted to the development of the Far East, castigated the two ministries for their failure to implement the transfer of relevant federal programmes, something which had resulted in ‘blurred responsibilities’, lack of progress in the work, and the MDFE ‘still not justifying its existence’ (Kremlin.ru 2012).

However, even with the Ministry of Regional Development gone, there remain other real and potential overlaps – for example, with the priorities of the Ministry of Natural Resources or the Ministry of Economic Development. The latter, which coordinates Russia’s special economic zones (SEZs), has questioned the efficiency of the new ASEZ regime, arguing that the new workplaces created come with a price tag of 6 million rubles, money that could be spent more efficiently on creating ‘regular’ jobs.

Not surprisingly, there have also been repeated clashes with the Ministry of Finance over funding. For example, the latter was seen as attempting to torpedo Ishaev’s costly investment plans

for the Russian Far East, arguing that the proposed state contribution was 14 times higher than the ministry considered realistic (Fortescue 2016: 432). Over time, the Ministry of Finance has tightened the purse-strings considerably, most recently with an almost 50 per cent cut in spending on the targeted programme in 2017 as compared to the previous year.

Oversight vs overlap: the role of the Presidential Plenipotentiary

Ishaev combined being minister with serving as the president’s personal representative to the Far Eastern Federal District. The task of the presidential plenipotentiary is to monitor implementation of Moscow’s policies at the federal subject level. In case of the Far Eastern Federal District, the territorial area of responsibility of the plenipotentiary overlaps with that of the ministry – so Ishaev was responsible for monitoring the work of his own ministry.

When in 2014 Ishaev was replaced by as plenipotentiary by Trutnev, checks and balances were only partially restored: While Trutnev was not given charge of the ministry itself, he was made Deputy Prime Minister with responsibility for the Russian Far East. Trutnev would thus ensure the coordination of the interests of the presidential administration and the government. Besides enjoying direct access to the President, Trutnev holds a more senior position in the cabinet than Galushka: as Deputy Prime Minister, he can issue directives regarding his portfolio to any federal minister. Thus, Galushka has been relegated to a more subordinate position when it comes to setting the priorities for Far Eastern development. Increasingly, Trutnev and his staff seem to be taking the lead in developing new initiatives here.

The regional executive

At the regional level, the most important counterparts to the MDFE are the governors. In the 1990s, the regional executive branch became the centre of political power at the federal subject level. With the onset of Putin’s presidency, however, the Kremlin started pushing back the concessions the regional heads had won during the previous decade, a process that culminated with the 2004 decision to reintroduce presidentially appointed governors. In 2012, the Kremlin again decided to slacken the reins, allowing a return to direct elections – but in practice, the presidential administration has continued to control gubernatorial turnover, with elections serving more as referenda over the Kremlin’s choice of candidates.

Deprived of a strong independent power-base, today the power and influence of the regional heads are largely a function of their connections and lobbying potential in Moscow. However, while formally an integrated part of the ‘executive vertical’, this does not prevent ambitious regional heads from launching their own projects that may compete, overlap with or duplicate the work of the MDFE. The ministry has also been criticized for not consulting sufficiently with regional actors – for example, when designating new ASEZs. It thus appears that bringing the ministry closer to the regions by maintaining a decentralized structure has not shielded it from criticism for failing to take local conditions and input into consideration in the planning process.

MDFE: successes and pitfalls

The Putin-era approach to the Russian Far East has marked a significant departure from the ‘traditional posture of selective inattention or even outright neglect by the central government’ (Lee and Lukin 2016: 9). The post-Crimean crisis in relations with the West may have added a sense of greater urgency to the pivot. However, concerted efforts to accelerate socioeconomic development, as well as to open up the region as a gateway for exports to the Asia–Pacific, predated the introduction of Western sanctions. In fact, a look at fiscal investment shows that the post-Crimea period has been marked by a steady decline in state involvement in the Russian Far East. Peaking with the adoption of Ishaev’s grandiose state programme in 2013, state funding and promises have been cut back, year after year. Even if the federal budget is currently under strong pressure, this certainly gives rise to some questions about Moscow’s long-term commitment to the ‘pivot’.

What has been achieved over the past few years is that the new development model for the Russian Far East has been institutionally anchored. Uncertainty remains, however, as to whether the institutional model devised by the Kremlin will prove capable of dealing with the fundamental problems facing the Russian Far East. The process is still characterized by Moscow’s penchant for strategic planning and pursuing state-sponsored, top–down development models – even the (partially) decentralized MDFE seems to be sliding back to the traditional Moscow-centred model. In parallel, the bureaucracy has multiplied, while political ownership of the processes has become diffused.

Will the MDFE manage to lift the Far East to same level of socio-economic development as the rest of the Russian Federation? Although local observers complain that they have still not seen any economic effects of the new development mechanisms, it might not be fair to draw firm conclusions at this stage – the

main mechanisms of the new development model have been in place for less than two years. The new interest in turning the Far East into an Asia–Pacific gateway may still have the side-effect of integrating Russia’s Far Eastern federal subjects more closely with the rest of the country, providing for more balanced development throughout the Federation. But both tracks – the internal and the external dimension of the pivot – will need long-term commitment from Moscow if they are to yield results.

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