BALLANCED ECONOMIC REGULATION of the ARCTIC ZONE: PROPORTION of STATE and PRIVATE SECTORS

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Economic Interest towards Arctic

- Strategic long-term economic benefits
- Resource and shipping potential of the Arctic Zone
The experience of development and implementation of State Arctic Policy of Russia

- Specific nature of the Region excludes the traditional combination of State and Private self-regulation mechanisms in the Arctic Zone
Main interests of Russian State Policy for Development of the Arctic Zone

• Strategic utilization of Arctic resource potential for the needs of socio-economic development of the country;
• Preservation of the Arctic as the Zone of Peace and Cooperation;
• Environmental conservation of Arctic eco-systems;
• Utilization of the Northern Sea Route as a universal Russian transport line of communication in the Region;

Strategy of the Development of the Arctic Zone of Russian Federation and National Security till 2020

• Industrial exploration of the region.

• Three main sub-programs:

1) «The formation of base development zones and their maintenance, arrangement of conditions for advanced socio-economic development of the Arctic Zone of Russian Federation»;

2) «Development of the Northern Sea Route and arrangement of navigation in the Arctic»;

3) «Development of oil-gas and industrial machinery technologies and equipment, needed for the exploration of Arctic resource potential»

• Among the first - the goal to arrange the conditions for rising the level of life quality and safety of the population of Arctic Zone of Russian Federation.
2020: Russian National Interests

- Sovereignty and territorial integrity of Russian Federation;
- Arctic – territory of peace, stability and beneficial co-operation;
- High living quality and prosperity of the population of Russian Arctic Zone;
- Arctic – strategic resource base for economic growth of Russian Federation;
- Northern Sea Route – competitive transport communication line;
- Protection of the environment;
- Protection of the indigenous environment.

*Strategy of the socio-economic Development of the Arctic Zone of Russian Federation and National Security till 2035*
Priority of Social Strategical Goals in the Development of the Region

• New high-tech methods for healthcare development;
• Population access to first aid;
• High-quality education;
• Development of professional education;
• Correspondence of industrial specialization of Arctic development zones;
• Partnership with private companies;
• Ecology, environmental management, protection of indigenous heritage;
• Transport accessibility;
• Connection of territories.
Russia is going to develop the Arctic Region:

- on long-term economic development principals;
- strengthening of its presence in the region on basis of sustainable development: economic interests, ecology responsible resources management, development of human capital;
- with regard to national and regional identity.
Arctic for Russia:

• Region of long-term global competitor advantages;
• Conditions of achievement – large industrial projects and development of arterial transport infrastructure;
• Characteristics of economic model – second generation of governmental documents.
Economic model of Arctic Development: link with the regions specifics

• Huge energy and natural resources potential;
• Remoteness from centers of economic development;
• Huge territory is unexplored;
• Low density of population;
• Designing of special-economic and social development characteristics from scratch;
• Arctic transport route is parallel to Euro-Asian transport artery;
• The biggest Icebreaker Fleet;
• Effect of military-strategic factor.
The model of pivotal zonation

• Concentration of industrial sectors;
• Project-based approach
• Coordination of all economic activities on the stages of designing, goal-setting, financing and implementation;
• Zone geography: Kolskaya, Archangelsk, Nenets, Vorkutinskaya, Yamal-Nenets, Taimiro-Turukhanskaya (Norilsk), Northern Yakutia and Chukchi.
Combined public-private model of development

- Three main subjects:
  1) State – on behalf of public authorities and development institutes;
  2) Large-scale business – strategic partner of the government in terms of development of the region;
  3) Small and Medium Business – with the goal to satisfy the final demand of Arctic population and tourist’s flow.
State goals:

• To create the transport and energy infrastructure;
• To create healthcare, cultural and educational infrastructure;
• Development of science, sports and recreation;
• Housing construction, arrangement of comfort zone;
• Arrangement of competitive level of living in order to long-term anchoring of the population in pivot zones.
State investment expenses

• Positive shocks for economic activity;
• Fillips for the development of consumption market;

**Difficulties:**

✔ Remoteness of the Development Zones;
✔ Lack of competitive market for placing of contracts;
✔ Rotating scheme initial construction;
✔ revenue churn to the regions-origin of working force.
Important

• Preferential tariff rates of natural monopolies;
• Strict governmental control over the effectiveness and purposefulness of state investments;
• Encouragement of engagement of competent contractors;
• Principle of simultaneous social objects construction;

In order to:

• Get as much multiplicative effect as possible;
• To form the motive of long-term settlement of the popelation as fast as possible.
Large-Scale Business: production and technological competences

• Enters the Arctic Region with commercial purposes;

Readiness of private capital for social and corporate obligations:

• Investments into social infrastructure and professional education – opportunity to eliminate labor risks and combined systematic risk;
• High level and cost of investment risks – the reason to enact the preferential regimes.

• **Instruments:** investment tax credits, tax easement, special tariff rates of natural monopolies, co-financing of the investments.
Small and Medium Business

1. Economic spheres of common specialization;
2. Traditional economic activities of Indigenous people.
1. SMB: economic spheres of common specialization

- Retail business and food services, tourism and recreation, passengers transportation, additional education, consumer services and healthcare;
- Satisfaction of final demand, which is based on consumer incomes of population;
- Descending of the effects of market self-regulation, effects of competition.
- Need of time and compelling starting conditions in order to attract entrepreneurs.
- Term – steadiness, strictness and consistency of state policy for the development of the Arctic Zone.
Controversies of SMB development

- Enforcement of the demand for SMB services and goods is not creating sustainable competitive effects;
- Accompanied by additional expenses and loses for organization of competitive tendering;
- Loses because of shipments in uncompetitive conditions.
- **effective**: soft tariff rates of transport and energy implementation.
- **effects** of network operators, usage of round routes of transportation.
2. SMB in traditional economic activities of indigenous

- Development of agriculture, hunting, fishery, procuring natural products, tourism;
- Trends for ecology responsible behavior and consumption;
- Tolerance and acceptance of multicultural differences;
- Value of traditional culture;
- High and specific consumption interest.

**IMPORTANT:** governmental support of tourist infrastructure and merchandising of recreational products and indigenous products, event-management for attraction of tourists.
Russian Arctic Development Policy: first results

- Stabilization and growth of population;
- Growth of shipments via the Northern Sea Route;
- Preferential regimes are counting from multiplicative expectations 1 to 10.
- «The whole Russian Arctic became a special economic zone. It is the biggest economic zone in the world (its territory is approximately 5 mln. square kilometers). Today any entrepreneur, who is ready to invest into Russian Arctic no less than 1 mln. rubles, can obtain a resident status», – Yurii Trutnev, vice-premier of the Government of Russian Federation, Presidential Envoy to the Far Eastern Federal District.
- Ministry of the Russian Federation for the Development of the Far East and Arctic received 13 claims for support of investment projects with private investments of 212,5 bln. rubles.
- 7 investment projects with overall private investments of 187 bln. rubles are approved.
- The Arctic Development Fund for financing the social development: it is planned to enlist into it 50% of tax and non-tax revenues from new projects, which are implemented with state support in Arctic Zone of Russian Federation.