

УДК 332.330.15

Development Strategy of Resource-Based Regions

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Received 3.12.2010, received in revised form 10.12.2010, accepted 17.12.2010

Natural resource prerequisites to form development strategies of Russian resource-based regions have been considered. Three model types of industrial policy are presented: deep specialization model, isolation model, balanced model. Resource-based regions are subdivided by degree of infrastructure development. Problems of investment security for large-scale projects oriented to large changes in the economy structure have been considered. Opportunities of establishing in the Russian territory units of transnational corporations are discussed.

Keywords: development strategy, resource-based region, investments, joint ventures, mineral-raw material complex, anthropogenic load.

Point of view

Regional management is to be exercised on principles of sustainable development, ensuring the right to healthy environment for not only the present-day but also for the generations of citizens of Russia to come. The way to this is to negotiate negative consequences of anthropogenic impact to ecologically safe sustainable nature management, to intensify innovative activities in the sphere of rational nature management and environment protection.

Position of a region in the structure of national and world economic systems is, among other circumstances, defined by development level and structure of the production system of the region prevailing in its territory. Russian regions substantially differ by their level and structure of technosphere development. Development potential is the highest in a region with diversified technosphere structure, whose development is

adequate to resources available in the territory of the region. Among Russian regions they are Moscow and Moskovskaya oblast, S.Peterburg and Leningradskaya oblast, and several regional centers, Nizhegorodskaya and Novosibirskaya oblasts, in particular.

Diversity of sectoral structure makes possible to most fully satisfy demand of the population for various commodities and services, provide for most complete realization of natural and labor potential of a region, create conditions for the regional technosphere to self-organize and self-develop. Such regions enjoy considerable potential for self-sufficient production system and consumptive use. Exchange of commodities with other territories creates conditions for the technosphere to harmoniously renew, to further enhance its diversity. Limited diversity of sectoral structure of the technosphere brings

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forth rigorous necessity to meet the demand of the population by import. This makes the region develop competitive economic activities in a limited number of industries. In several cases insufficient diversity of structure of the economic system of a region is compensated by high efficiency of activities in the specialization industry. This makes possible for the region to efficiently exchange commodities in the national and world markets to fully satisfy demand of the population for commodities.

For several Russian regions such market specialization industries are the industries using mineral (Tyumen oblase, Kemerovo oblast, Krasnoyarsk krai, Magadan oblast), forest (Tomsk, Irkutsk oblasts, Krasnoyarsk krai), biological (Primorsky krai, Astrakhan oblast) resources. In some of them high performance indicators are formed exclusively by powerful flow of resources. The efficiency of these flows is, at this, extremely low because of small capacity and diversity of production system. Such a model of development is fraught with a danger to strategic economic security. E.g. exhausted resources or decline of demand in the external market may cause deep system crisis in the region. In addition, such a development model is characterized by high anthropogenic load on the ecosystem of the territory and is unstable from the viewpoint of ecological security. This determines the necessity to transform the strategy of managing such regions.

Degree of fulfilling the intrinsic potential of the economic system of the region depends on the type of management determined by long-term strategy. Development strategy of a region involves implementation of one of the models of industrial policy. For different regions it is possible to sort out several models of industrial policy [1]:

1. deep specialization model oriented to export a small number of commodities of market

specialization and import the major part of consumer goods;

2. isolation model involving most complete use of all internal resources and meet all demands of the region exclusively by internal resources available;

3. balanced model involving maximum diversity of industries making possible to satisfy requirements of the population within the country most fully and implying exchange of commodities with external (with respect to the regions) markets to renew and develop.

The deep specialization model in regions with underdeveloped industry having considerable mineral reserves implies use of mineral resource base exclusively to exchange commodities with other regions within the country and external market. The structure of industry in such regions is dominated by extractive industry, primary processing companies and industries servicing them. Actually other industries totally depend on the extracting industry. Prevailing in the export part of the structure of external-economic balance of the region are mineral resources at relatively low processing stages, in the import part – high-tech consumer goods.

Major flow of investments in these regions is directed into the extracting industry to develop the already opened deposits. Investor is not, at this, interested in geologic exploration [1]. It is important to note that investments generally come from other regions and from foreign states. The reason is that, as a rule, such regions have not accumulated sufficient capital of local origin. Investors external with respect to the region are not oriented to develop industries for deep processing of mineral resources. When the capital originates from industrial regions, their owners are interested to provide mineral raw material for industrial production in their own territory. It is beneficial for them to develop in their own territory highly technological facilities

of the last production stages, and locate in the resource-based regions the earlier production stages specified by high labor intensity, high technological danger and low added value.

Regions originally having no sufficient technological base are unable to ensure qualitative growth of mass production of consumer goods. Export of mineral resources is an opportunity for them to provide in the short-term perspective high living standard for their residents. The raw-material specialization of individual regions with no mechanisms to influence the world and regional markets exacerbates dangerous dependence of their economy on external market environment, reduces the possibility of integrated development of their own high-technology processing production. Today in Russia examples of deep system crisis in regions and population centers with single-industry structure of economy caused by changes in demand for the product of dominant industry and in all technologically related industries are numerous. Among the regions with such strategy are northern oil-and-gas territories of Western Siberia, Republic of Sakha (Yakutia), northern territories of European part, several regions of the Far East.

Necessity to maintain high consumption of mineral resources per capita in the regions and countries where mineral reserves are either absent or have been exhausted shapes steady demand for mineral raw materials. These regions and countries are interested to import raw material at maximum low prices. Actively investing into enterprises extracting and performing primary processing of resources in the territory of regions with resource-raw-material specialization of economy they prefer not to invest into development of high-technology industries in these territories. Development of these industries will make the regions with raw material specialization independent of export of many commodity types, reduce their demand

for exchange and, as a consequence, will reduce export of mineral resources. Territories with highly developed industry prefer to derive economic and environmental benefit at more technological stages of production process with most science-intensive production located in their own territories. Therefore, their interests are limited only by access to the extraction sites and guarantees of unobstructed export of raw materials or capital. In the territory of Central Federal District where considerable industrial potential is concentrated the stock of mineral resources in highest demand is practically exhausted. Industrial Ural regions are reaching the exhaustion level of their resources. Among foreign states – nearest neighbors of Russia practically all states of Europe, former USSR republics, China depend on export resources.

The isolation development model of a region or a country implies complete self-sufficiency. Isolation can be due to natural reasons, for example, low transport accessibility of the territory or political reasons. Self-sufficiency implies sufficient mineral resources in the territory and fairly well developed industry. As a rule, territories isolated due to natural reasons fall behind in their technological development. They tend to integrate within the framework of a single state trying to overcome the isolation type of development. Among these regions are the regions of Russian North. Voluntary isolation is specific for separatist regions and rogue states. In any case demands of consumers in the territory with the isolation model of development strategy will be satisfied less than in the territory integrated into a larger economic system. From the viewpoint of modern civilized society such a model of development strategy for a territory is considered unacceptable.

The balanced model implies integrated use of mineral resources of this territory. It implies development of both extracting and processing

and high-technology industry in the territory of the country. This makes possible to deploy in the territory of the country practically all stages of the engineering process and, accordingly, keep in the economy of the country the full volume of created added value, ensure maximum diversity consumer goods and maximum diversity of jobs providing for most complete self-fulfillment for the population of the territory. From the standpoint of economic security, balance between economic system and environment such a system is the most preferable. Free trade and competition between commodities produced within and outside the country give a considerable impetus to enhance quality of products, improve technologies.

To implement this type of strategy requires sufficient stock of mineral resources in the territory of the region, maturity of technologies, sufficient capital investments, developed production and social infrastructure. Individual regions of Russia concentrate in their territory considerable stock of mineral resources, the country has achieved fairly high technological development, and highly skilled labor resources. Yet, to implement a balanced development strategy requires the resource-based territories to have developed production infrastructure and developed industry.

Russian regions with resource specialization differ in development of infrastructure. In northern territories of Western Siberia developed machine building, petrochemistry and other industries are practically inexistent. High technology production, services sector are undeveloped. In Kemerovskaya oblast, Krasnoyarsk krai production structure is more diversified.

Regions with insufficiently diversified structure of economic system determined by insufficiently integrated utilization of region's resources need to structurally modernize their economy, implement large-scale projects oriented to large changes in the structure. This

requires attracting big capital investments. This is somewhat impeded by an inconvenient investment policy unable to attract inflows of both foreign and internal investments to high-technology industries. This calls for necessity of state regulation in the field of management of these regions.

Regions with fairly diversified structure and rich resources have considerable potential for self-development. These regions require only restricted interference into their structure. Economy of these regions is highly capable of self-regulation, while the interference into economy at the macrolevel can substantially distort capability of the economy for self-regulation and bring forth a system crisis.

Example

Russian regions with limited diversity of economic system and rich mineral reserves used now not in an integrated manner, can be structurally transformed only where there is considerable investment capital, capital of foreign origin, including. Today such Russian regions are an attractive and prospective market for foreign corporations. Common form of ownership is joint venture. Creation of a joint venture is motivated by difficulties of penetrating foreign markets, poor knowledge of foreign economic environment and necessity to unite partners' efforts under conditions of growing uncertainty of economic development, and sometimes national legislation restricting 100 % foreign ownership in individual industries and spheres. Of special importance is the exchange of organizational, managerial and technological experience, joint use of realization and service infrastructure of the partners [2].

To create joint ventures involves less risk than to establish a branch or an office in a foreign state. The reason is good knowledge of economic environment by the partners, shift of a part of

responsibility on the local partner. Acquisition of an operating foreign enterprise allows the investor promptly join the local structures, use connections and status of the acquired company. In this case the company starts operating in very short time, eliminating bureaucratic procedures connected with registration and organization of work of the new company. All too often TNCs buy shares of companies suffering financial difficulties. Frequently this happens after prolonged business collaboration in production, commercial and financial spheres.

Foreign capital, including joint ventures, establishment in the territory of Russia branches, offices and subsidiary enterprises of transnational companies should help productive powers of Russia launch onto a new qualitative level. This will make possible to raise the competition in the Russian market with favorable effect on the quality of products and will create prerequisites to meet the consumer demands in full extent.

Presently Russia is taking substantial efforts to create favorable environment to attract foreign capital. However, the investment attractiveness of Russia is estimated rather low because of the following reasons:

- high general political instability, instability of legislation, in particular;
- insufficient internal demand for industrial products and services;
- imperfection of regulatory and legal framework on the whole and in the field of foreign investment, in particular;
- high level of taxation and foreign trade fees;
- lack of quality infrastructure;
- lack of integrated state policy oriented to attract foreign investments.

Largest transnational companies regard investments into Russia as a way to get access to Russian resources and domestic market.

Investments into Russia are for them only a small part of global long-term investment strategy, they accept the high risk and temporary misinvestments. Investing in Russia foreign companies and banks pursue the following goals:

- to create facilities to produce products deficient in Russia or its price in Russia much higher than the world prices to make high profit rate;
- to use production factors whose price in Russia is lower than the world price: relatively low (but skilled) labor, low price for some types of raw materials;
- to use relatively rich deposits of commercial minerals and other natural resources which are cheaper to develop in Russia, than in other countries, or access to which is difficult in other countries;
- to incorporate Russian enterprises into process flow of foreign financial-industrial groups, which is done by purchasing Russian suppliers of raw material resources and semi-finished products;
- to acquire potentially efficient Russian enterprises (export-oriented, as a rule) at a low price to make high profit after limited investments into sales system, marketing and restructuring of manufactured products range;
- to promote to the Russian market their own products: to create distributive network, assembly production, servicing enterprises, introduce their standards in the Russian market. Investments of this type are also spurred by high customs charges;
- to use outdated or ecologically harmful equipment which cannot be efficiently used in developed countries. To produce outdated products with well-developed manufacturing technology

- to invest means of Russian origin disguised as foreign to have more opportunities to protect the capital from the acts of state.

It can be stated that the contribution of foreign investments into structural perestroika of the country economy is much lower than expected. Analysis of the structure of already attracted direct investments primarily shows their very narrow orientation. Low-level investment rate is observed even in the mineral-raw material complex, even though this is one of branches most attractive for investors. Capital is rather removed from the economy of Russia, than invested into it.

To locate production in the Russian territory generally means to perform only a small number of process operations in the territory of Russia. Other operations are performed beyond the borders of Russia. Along with this transnational corporations have a powerful mechanism to redistribute added value between the stages of process flow. High tax burden in Russia makes transnational corporations either not to locate in the territory of Russia most profitable stages of process flow, or artificially reduce their profitability, e.g. by transfer prices.

The transfer price mechanism allows transnational companies to move commodities between countries at prices other than the market ones. The market price is the expression of social utility of a commodity. In the case of market pricing profit is proportional to the contribution into creation of new user value. Transfer pricing makes possible to manipulate distribution of profit between the process stages, specifically – to redistribute the profit from process states with the highest contribution in the user value in favor of units whose contribution in the user value is substantially smaller. A criterion of such redistribution may be locality of the unit. Practical implementation of this mechanism is the internal market of a transnational corporation.

Integration of Russian enterprises into integrated manufacturing process of transnational corporations by integrating them into vertically integrated structure of a transnational corporation is aimed to maximize the profit of all integrated structure on the whole, but not of specific enterprises, located in the territory of Russia, in particular. Transnational corporations tend to buy Russian enterprises suffering financial difficulties at reduced prices. Loss of control of a company by the Russian side makes possible to use the transfer price mechanism and implicit outflow of capital abroad in such a manner that substantial part of newly created in the territory of Russia added value is withdrawn from the economy of Russia. Even though a transnational corporation is interested in stable operation of its new unit in the territory of Russia and expansion of its production which will certainly attract investments, the loss of economy of Russia from outflow of capital abroad is substantially higher.

Transnational corporations' units established in Russia to produce new for Russia types of products whose analogs are not produced in Russia should be considered separately. Such enterprises in the Russian territory make possible to best meet the demand of population in consumer goods. Creation of new enterprises brings investments into economy of Russia, contributes to its structural perestroika.

Conclusion

Russia, its well-developed science notwithstanding, is lagging behind more developed powers in terms of production technologies. To restructure the country economy the country has to attract new technologies. Russian companies do not have sufficient means to organize expensive R&D or to buy it abroad. To establish in the Russian territory subdivisions of transnational corporations, acquisition of Russian technologically backward enterprises by foreign

transnational corporations or other options for a Russian company to be integrated into the integrated process chain is a way to attract high technologies. Modern technologies can create in the territory of Russia jobs with high labor productivity. It should be noted that Russia acts as exporter of technologies, too. Many companies use the following approach: R&D is conducted in Russia in a Russian scientific research institute and technology is transferred to transnational companies. Advantages of this approach for the transnational corporations are to use cheap labor of Russian scientists and researchers. To invite Russian specialists to foreign scientific centers would require to pay for their labor to meet their high living standards. Besides, adaptation of a specialist in a new team complicated by new verbal environment takes time. R&D performed in the territory of Russia eliminates these disadvantages, so this organization of research is profitable for transnational corporations. There is no telling that this form is beneficial for Russia, because Russia loses the right for technologies developed in its territory, which become the property of foreign firms. However, this form of collaboration allows Russian highly skilled specialists stay in Russia, and improve their standard of living, at this. Participation in such projects makes possible to acquire new equipment necessary for research which is extremely important considering funding shortfall of Russian science. At a certain stage such a form of collaboration can be called a more beneficial alternative to brain drain.

Presently Russia steadily sticks to the policy of being integrated into the world market to take is proper position. Hard talks to enter the world trade organization are under way. This decision is multivalued. There is a danger that as a result of joining WTO Russia will lose more than gain. Russia will have to open its markets – this will substantially exacerbate competition and might make many Russian

enterprises non-competitive. Integration of Russian enterprises into manufacturing process of transnational corporations will make possible to redistribute the newly created added value between the manufacturing process stages and, as a consequence, implicit outflow of capital beyond Russia. Lack of single development strategy for the country will aggravate single-industry orientation of economy of individual regions, increase the part of export of mineral raw materials abroad and reduce its production consumption in Russia. Among other things, this will aggravate environmental problems in the territory of resource-based regions and deepen the system crisis in other territories of Russia.

Mineral commodities-based industries is something special. On the one hand today this industry which creates considerable part of GNP, accounts for almost half of all investments into the economy of the country. On the other hand orientation of the country **for the export** mineral resource policy is, in long-term perspective, unstable, aggravates dependence of the country on external market, decreases living standards of the population, brings forth a number of environmental problems [3].

Current high production of mineral resources in our country provides for their high consumption in processing industries. This forms an integrated production chain, and the profit from its operations remains in the territory of Russia. Development of processing industries is facilitated by highly developed science and technology, abundant highly skilled labor resources. Russian regions exhibit high potential for interregional exchange.

To close the process flow in the scale of Russia in some cases is not reasonable. A large part of regions are substantially self-sufficient in terms of resources. The nature management system in these regions allows autonomous existence with ostly characteristic for Sakhalinskaya, Kamchatskaya, Ikutsk oblasts,

Krasnoyarsk, Khabarovsk, Primorsky krais. Least self-sufficient and mostly integrated into All-Russia economic system are Yamal-Nenets district, Yakutiya, Evenkia, Kalmykia, Kuzbass, Moscow and Moskovskaya oblast.

To choose a development strategy for a region with resource material specialization account should be taken of a totality of factors.

Among them are balance between development of production system of the region and nature-resource potential of the region, position of the region in the structure of interregional and international exchange of commodities. It should be noted that specific anthropogenic load per production unit differs with structure of economic system.

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Стратегии развития регионов ресурсно-сырьевой специализации

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Рассмотрены природно-ресурсные предпосылки формирования стратегий развития российских регионов сырьевой специализации. Представлены три вида моделей промышленной политики: модель глубокой специализации, изоляционная модель, сбалансированная модель. Сырьевые регионы подразделены по степени развития инфраструктуры. Рассмотрены проблемы инвестиционного обеспечения масштабных проектов, нацеленных на крупные изменения в структуре экономики. Обсуждаются возможности создания на российской территории подразделений транснациональных корпораций.

Ключевые слова: стратегия развития, ресурсный регион, инвестиции, совместные предприятия, минерально-сырьевой комплекс, антропогенная нагрузка.
